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ARMAMENTS

The Race and the Crisis

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PREFACE

THIS new study of armaments and their cost is intended to supply an urgent need of the times in which we live by providing a brief historical account of their growth and of the various efforts that have been made to arrest it, or to reduce the burden. Our survey of the past leads to a survey of the present crisis. Of its formidable nature there can be no doubt. Mr Stanley Baldwin has spoken of it over and over again. At the Guildhall on November 9th, 1936, he said :—" To-day, while we are still finding and burying the bodies of men who fell in the War, the whole of Europe is arming—an inconceivable folly for those of us who have the responsibility of governing the great countries in Europe." If, he went on, this process continues at the expense of popular welfare, " there will grow discontent and despair ; and indeed, if these armaments continue, I don't say they mean war, but they make war more likely." And what would be the result of another war ? It would mean, in Mr Baldwin's judgment, " misery untold, compared with which the misery of the last war was happiness ; and it means in the end anarchy and a world revolution. Knowing that, what can our duty be but to come together and save Europe?" At Birmingham on January 29th, 1937, Mr Chamberlain, the Chancellor of the Exchequer, said the British Government had embarked upon " by far the largest programme of defence that has ever been undertaken in time of peace, involving

munitions and weapons which produce no economic return." He believed that what he and his colleagues were doing was absolutely essential :—

" But as I watch the figures mounting up, as I reflect upon the growing cost of the maintenance of this vast panoply when we have completed it, I cannot help being impressed by the incredible folly of civilisation, which is piling these terrible burdens on the shoulders of the nation—burdens which, if something is not done to reduce them, are bound to pull down the standard of living for a generation to come."

He went on to pledge the Government of Great Britain to make a contribution " both by precept and by practice " towards a political appeasement and a general peaceful settlement of Europe.

One of the questions which every intelligent reader of this book at home and abroad must ask himself is :— " How much longer can Russia, Italy, Germany, and France—to say nothing of Poland and several smaller States on the Continent—stand the racket of this armaments race?" Rising prices, shortages of food and raw materials, embarrassing exchange restrictions, costly subsidies, impoverishing quotas, high tariffs, precarious currencies, stupendous deficits, and the inability of Governments to borrow at reasonable rates of interest or to discharge their financial obligations, all point to a crash in the near future. It is estimated by those who should know that when the next Budget is opened Great Britain alone will have added in the last two or three years upwards of one hundred and eighty millions to the annual cost of its armaments—the equivalent say of three and sixpence in the standard rate of income tax.

Our history of the armaments of the Great Powers in the century which divided the battle of Waterloo (1815) from the outbreak of the Great War in 1914 constitutes

progress of invention and the technique of war. In the three short chapters assigned to that period, we cannot pretend to have done more than touch upon a few of the landmarks in a story which deserves detailed and comprehensive treatment; but those who are now applying their hearts and brains to this, the most pressing problem of civilisation—for on its successful solution depends the avertibility of another ruinous war—will find that there is much to be learned from past experience.

In one respect, the period before 1914 presents less difficulty than the later period of seventeen years since the Peace of Versailles. In the earlier period the comparative statistics of the cost of armaments and of wars have been ascertained with sufficient accuracy. There has always been an element of secrecy in war preparations which contributed to panics and helped to pile unnecessary burdens on the unfortunate taxpayers of all the countries concerned. But this element was much smaller, and the results were consequently less serious, than in these days of sensational journalism. Moreover currencies, especially in the fifty years preceding the Great War, were fairly stable, and easily comparable, because most nations had adopted the gold standard, and those which had an inconvertible paper standard kept it normally in a fixed relation to gold. Consequently, there was little difficulty in expressing the cost of armaments of the leading powers in terms of British pounds, French francs, German marks, Russian roubles, or American dollars, at any date, say, between 1874 and 1914, or even at an earlier date when Cobden and others were endeavouring to bring about general disarmament.

But the Great War threw nearly all the currencies of the world into confusion and chaos. The value of the

standard money of Russia, Germany and Austria disappeared altogether; and the vast public loans and investments of their peoples were confiscated. The values of many other currencies, including France, Italy, Belgium and the newly-formed Baltic and Balkan States suffered a depreciation of 75 per cent. and upwards. Thus by far the greater part of the War debts, contracted with European investors in Government stocks, was confiscated; and millions of private citizens, who had subscribed to what they naturally regarded as trust securities, were totally or partially ruined.

Thanks to greater wealth and superior finance, the Government of Great Britain contrived to maintain interest payments on a War Debt multiplied by twelve, and was even able for a time to restore the gold standard. The United States, with far less proportional sacrifices, was in a better position until the crash of 1929. Japan spent little and gained much trade during the War; but the Japanese yen has since depreciated from an exchange value of two shillings to one of thirteen pence or fourteen pence.

The new paper currencies have fluctuated wildly and incessantly during these seventeen years, and at the present time the internal values of the currencies of three of the great military powers—Russia, Germany and Italy—are much lower than the official exchange values. These facts help to explain why the experts at Geneva and elsewhere have failed to reduce the annual armaments budgets since the Great War to a common denominator of gold or sterling. The comparative statistics, especially since 1932, are at best provisional, and conjectural estimates for Germany and Russia during the last two years are wildly conflicting.

An expert at Chatham House—the Royal Institute of

International Affairs—to whom we are indebted for valuable assistance, points out that the difficulties of comparison are much aggravated by “the pernicious habit of Governments of spreading their defence expenditure over a number of headings in the Budget, and, in the case of some Governments, of resorting to supplementary and extraordinary budgets for special purposes.”

The doctrine of the balanced budget is violated when a Government proposes to borrow for military or naval purposes, because this kind of expenditure is neither reproductive nor revenue producing. The construction of a needed railway, or road, or port, will add to the wealth and revenue of a country; and its cost may therefore well be spread over a number of years. But the practice of borrowing for battleships, guns, or bombing planes, which will be worn out and scrapped in a few years, is unjustifiable unless a country is desperately poor and in danger of attack. Yet, as this book goes to press, Mr Chamberlain is asking the House of Commons to borrow up to 400 millions sterling for “Rearmament.”

In the case of Germany, since the establishment of the Nazi dictatorship, there has been no official publication of the total expenditure on armaments. In the case of Italy, the official figures exclude all the extraordinary appropriations on account of the Abyssinian War. In the case of France, the armaments expenditure is spread over a bewildering number of departments; and in this, as in other countries, there are many items such as new roads which have a civil, as well as a military, value. The three Great Powers, whose expenditure on armaments and rearmament can be accurately measured and compared for the last two years, are Great Britain, the United States and Japan, though a roughly correct statement for France may be included.

Our object has been to present in a popular and intelligible form within moderate compass a vast amount of material taken from the *Armaments Year Book*, published by the League of Nations, and from many other sources.

In my work as editor and compiler I have to thank especially Lord Rhayader, Sir Gilbert Jackson, Dr G. P. Gooch, Mr J. E. Allen and Mr C. J. L. Brock for reading and criticising the manuscript and proofs. To Admiral Sir Herbert Richmond we are especially indebted for a valuable memorandum on naval armaments.

I am, I believe, the only survivor of a Committee of the Cobden Club which more than thirty years ago was responsible for *The Burden of Armaments*. It included Lord Welby, Mr George Shaw Lefevre (afterwards Lord Eversley) and Sir Spencer Walpole. The book is still a standard work of reference for the earlier period.

February, 1937.

F. W. H.

CHAPTER I

EUROPEAN ARMAMENTS 1815-1860

AFTER the battle of Waterloo, which put an end to the Empire and Dictatorship of Napoleon, there followed the so-called Thirty Years Peace—a peace of exhaustion rather than of recovery, though Great Britain, the United States, and most other countries, in spite of war debts and excessive taxation, were better off at the end of the period than at the beginning. Fortunately the Peace Treaties did not bear hardly on the vanquished. Little change was made in the historic boundaries of European countries; France was not stripped of her colonies and her pre-war boundaries were left almost unchanged. British troops occupying portions of France were speedily brought home; demobilisation was rapidly effected; armies and navies were reduced to a peace footing. The British Income Tax, then regarded as a war tax, was completely repealed in 1816, though a crushing protective and preferential tariff still burdened the people and prevented any expansion of commerce until Peel and Gladstone in the 'forties, 'fifties and 'sixties gradually emancipated our trade from fiscal obstructions. Forty years before the Repeal of the Corn Laws, Adam Smith, the founder of the science of political economy, in his great book *The Wealth of Nations*, had pointed out not only that prosperity and material progress depend upon freedom of exchange between individuals and nations, but also that unnecessary expenditure by Governments on war or armaments, whether paid for out of loans or taxes, is

waste, and will, if carried far enough, bring about public bankruptcy—just as in private life the Rake's Progress ends ultimately in pauperism.

Soon after he became Prime Minister (in 1841) Sir Robert Peel pointed out to European statesmen and rulers the immense advantages which would accrue from a simultaneous reduction in the burden of armaments. At that time the annual expenditure of Great Britain on army and navy combined was only about eleven millions sterling, though our navy was by far the largest and most costly in the world. But the total expenditure of the country was then only forty-nine millions, and even so the weak Government which preceded Peel had been unable to balance its budgets. Peel's speech in the House of Commons has a modern ring, though it was delivered ninety-five years ago. He said :—

“Is not the time come when the powerful countries of Europe should reduce their armaments which they have so sedulously raised? Is not the time come when they should be prepared to declare that there is no use in such overgrown establishments? What is the advantage of one power greatly increasing its army and navy? Does it not see that other powers will follow its example? The consequence of this must be that no increase of relative strength will accrue to any one power; but there must be a universal consumption of the resources of every country in military preparations. They are, in fact, depriving peace of half its advantages, and anticipating the energies of war whenever they may be required. . . . The true interest of Europe is to come to some common accord, so as to enable every country to reduce those military armaments, which belong to a state of war rather than of peace. I do wish that the councils of every country (or that the public voice and mind if the council did not) would willingly propagate such a doctrine.”*

Unfortunately there was no response to this appeal, though the naval expenditures of France and Great

* See Hansard's Parliamentary Debates, Vol. 69, p. 403.

Britain, then the only considerable naval powers in Europe, might well have been reduced proportionately. They almost invariably rose and fell together; and it was the policy of the British Government to maintain a naval strength about one-third larger than that of France—a policy which was justified by our insular position, by the smaller size of our army, and by the fact that our mercantile marine, our commerce and our Colonial Empire were much greater than those of France.

A century ago the three countries most dangerous to European peace were Russia, Austria and France. The empires of Russia and Austria were autocratic; public opinion and public discontents could find no expression except in insurrection because in neither country was there a Parliament or a free press. In France under King Louis Philippe there was more liberty; but his government had imperialistic ambitions in Africa and Asia Minor. The French Budgets were habitually unbalanced. Between 1830 and 1848 the Funded and Floating Debt of France had risen by about a hundred and twenty millions sterling—a colossal sum at that time. Discontent, racial and economic, began to spread all over Europe; Communism raised its head in Paris; and in 1848 a revolutionary storm swept over the continent, overturning dynasties and causing much destruction of life and property. The Communistic uprising in Paris was with difficulty suppressed. In Austria and Germany, to quote a writer in the *Westminster Review* (October, 1849) excessive armaments, by impoverishing the people, had produced the very disorders they were intended to quell. Instead of protecting despotic governments, regular soldiers fraternised with the citizens and expelled the tyrants. Anarchy followed, and the kings and princes returned in most countries. In France, however, Louis

Philippe remained in exile. A republic was formed, but in a short time Louis Napoleon gained the dictatorship and proclaimed himself Emperor of the French.

For several years, previous to this event, there had been an agitation in official and military circles, both in France and in England, for additional expenditure on armaments. Politicians can usually be found to promote and foster such agitations; and in addition to the politicians there are armament manufacturers and there is the sensational Press. When Cobden, following George Washington's precept to the American people, first advocated the policy of non-intervention in the internal affairs or wars of other countries, and exposed the folly and wickedness of fighting for the Balance of Power, he quoted by way of illustration a ridiculous paragraph in a London newspaper dated October 22nd, 1834. The writer complained that in its first two years the Whig Government had only passed the Reform Bill and a Bill to amend the Poor Law. They had failed to settle the Dutch question; they had not stopped the Carlist wars in Spain; they had failed to intervene in the internal disputes of Portugal, Switzerland and Germany; they had not settled the trouble between Turkey and Egypt or prevented the French from occupying Algeria; nor had they solved the Polish problem. In short, wrote Cobden, if this editor had his way "the Whigs would leave nothing in the world for Providence to attend to." Ten years later, in 1844, the Duke of Wellington advocated a scheme of fortifications to resist an imaginary French invasion, and Lord Palmerston tried to stir up a panic by announcing that steam navigation had made the channel no better protection than "a river passable by a steam bridge." This agitation subsided rapidly when Lord John Russell raised the income

tax from sevenpence to a shilling in the pound in order to reorganise the militia and make preparations against invasion. Public meetings were held in protest ; petitions poured in ; the budget was withdrawn, and soon afterwards the French king, Louis Philippe, who had been the object of so much apprehension, fled from France and found a comfortable home in the country he was to have invaded and conquered ! The Queen's Speech of 1849 contained this gratifying announcement :—" the present aspect of affairs has enabled me to make large reductions on the estimates of last year."

But the respite was short-lived. In 1851, as we have seen, Louis Napoleon made his coup d'état and soon afterwards was proclaimed Emperor. The very name of Napoleon was formidable ; and though our naval strength was then overwhelming, a new Militia Bill was proposed, and supported by alarmist statements from Lord Palmerston and others. Cobden showed conclusively that the French navy was quite unprepared for a war with England. It had, in fact, been neglected for several years. This panic was dissipated in a curious but lamentable fashion. In 1854 we drifted into a war with Russia ; and Louis Napoleon, instead of attacking us, became our ally. The British fleet shut up the Baltic and blockaded the Russian fleet in the Black Sea at Sebastopol, while the French navy could do little more than convey French troops to the Crimea.

When the Crimean War was over, it was found that in addition to the cost of the war, the ordinary expenditure of Great Britain on army and navy had been considerably raised. The navy was far larger and more costly than was necessary for security. Speaking at a Naval Review in the Solent in 1856, Lord Palmerston himself declared :—" No country ever before possessed so mighty

an armament." In 1857 a remarkable combination of statesmen—Disraeli, Gladstone, Lord John Russell and Cobden—urged a return to a more moderate level of national expenditure. At the opening of Parliament in 1857, Disraeli proposed to introduce resolutions protesting against the continuance of war taxation in time of peace, adding that if his resolutions were carried,—“we shall give a great impulse to salutary economy, and shall in a most significant manner express our opinion that it is not advisable that England should become what is called a great military nation.” In conclusion he declared that—“with due economy and with able administration the more you reduce the burdens of the people, the greater will be your strength when the hour of danger comes.”

Lord John Russell laid down some admirable maxims upon the policy of expenditure, and compared the history of England and France during the preceding thirty years. France had been keeping up an immense army and a considerable navy. Her debt had been increasing, and her people were suffering from heavy taxation and an oppressive tariff. We, on the other hand, had been able to reduce taxes and abolish many customs duties, thereby enabling our population to grow rich. In the Crimean War we had seen what that wealth was able to effect. “When our enemy was exhausted and our Ally was so far weakened in its finances that its war spirit flagged, the Government of this country found that owing to our wealth, we had more than sufficient to pay for the large expenditure of the war; and the spirit of our people, if terms of peace had not been accepted, was such that for five, six, or ten years longer, if necessary, we might have made the exertions necessary for war.” Lord John Russell’s conclusion is worth putting on record:—“It

is by moderate establishments, by rendering such establishments good and efficient, by attending to everything which cannot easily be originated or replaced, it is by such a system and by relying upon the greatness of the country and on the spirit of our people, that you will be most formidable in war, and not by any new-fangled system of increased Estimates during a time of peace."

Disraeli, supported by the Tory Party, moved an amendment to the Address in which he looked forward to such a reduction of expenditure as would, in 1860, allow Parliament "altogether to remit the Income Tax."

It was fortunate for the British Empire that France remained friendly ; for the great Indian Mutiny suddenly caused a new strain upon the military resources of Britain. But when peace was restored in 1859, panic-mongers in the British press endeavoured to create a new alarm by exaggerated accounts of French naval preparations, and by giving out that the French Admiralty had been spending secretly enormous sums on shipbuilding. It was a period of transition from sailing ships to steam ships, and from wooden to iron-cased vessels. In 1858 the British navy had thirty-five sailing ships to ten French and 464 steam vessels of all sizes to 264 French. The position will be found fully set out in Cobden's description* of the third panic which raged in 1859 and 1860. In both the House of Commons and the House of Lords, leading public men asserted that a French invasion was imminent. It was said that at almost any moment sixty or eighty thousand men could be landed "on any beach on the south coast of England." Lord Palmerston was now Prime Minister, and in spite of the opposition of Gladstone, his Chancellor of the Exchequer, he insisted on a fortifications loan and considerable additions to

* See Cobden's "Three Panics."

military and naval expenditure. The theory that steam had converted the channel into a river and had thrown a bridge across it was repeated over and over again. Rifle corps were started all over the country, and a volunteer force was brought into existence in addition to the militia. From forty-five thousand before the Crimean War, the number of seamen was raised to eighty-five thousand and the total naval expenditure from six to thirteen millions. The fortifications loan of eleven millions was to be devoted to the defence of ports and dockyards. Though beaten on the fortifications scheme, Mr Gladstone as Chancellor of the Exchequer strove hard for economy, and his efforts were eventually crowned with success, as we shall see in the next chapter.

CHAPTER II

FROM THE COBDEN TREATY WITH FRANCE TO THE CZAR'S PROPOSALS FOR DISARMAMENT

IN spite of the marvellous discoveries and inventions—electricity, steam, motor transport, aircraft, etc.—which have multiplied and accelerated the means of communication in a thousand ways, the world is still divided into rich countries and poor countries and into countries where unemployment is diminishing or increasing. It is divided more than ever by economic barriers, constructed to hinder or prevent as far as possible commercial intercourse. An impoverished Europe bristles with new fortifications, and resounds with bellicose speeches by ministers, or dictators, who boast of their preparedness to repel aggression and to bomb the cities of the aggressor. Happily modern history shows that while war—whether civil, between classes, imperialistic or racial—may rage and devastate one part of the world, peaceful measures of economic appeasement and friendly co-operation may simultaneously be producing material progress and relative prosperity in other parts.

This theme may be illustrated by the events in Europe and America between 1859 and 1871. In 1859 the French Emperor joined Victor Emmanuel in a short and successful war against Austria, which ended in the cession of Lombardy to Sardinia and the cession by Sardinia of Savoy and Nice to France. Thus, by French assistance, an Italian Kingdom was formed, which in 1866, thanks

to the defeat of Austria by Prussia, was again enlarged. The action of France caused unnecessary alarm in England, but a declaration of neutrality was issued by the British Government. British opinion favoured Italian unity, rejoiced over Garibaldi's romantic successes in Sicily and Naples, and welcomed the day of March, 1861, when Victor Emmanuel was proclaimed King of Italy by the Italian Parliament. It may be added that the war which completed the freedom and independence of the Italian people in 1866, had another important result; for it united Germany under Prussia, and the growth of so formidable a Power aroused the jealousy of French Imperialism and led to the Franco-German War of 1870, which, besides depriving France of Alsace-Lorraine, created the German Empire, and made it the first military power in Europe. Meanwhile the war of 1859 had threatened to produce a conflict between France and England; for Napoleon's success gave rise to the notion that his next adventure would be a descent upon our coasts. This alarm caused the third, the last, and the most serious of the French invasion panics. It was laid to rest partly by reason and ridicule, but mainly by a great commercial treaty,—in both of which processes the main personal factor was Richard Cobden, though he could not have achieved so great a victory for peace and prosperity without Gladstone, whose co-operation as Chancellor of the Exchequer within the Cabinet was an indispensable condition of success.

This improvement of Anglo-French relations coincided with the most ghastly and devastating civil war of modern times, following the secession of the Southern slave States from the American Union. That war, beginning in April, 1861, ended in 1865, a year

before the defeat of Austria by Prussia and Italy. Unfortunately for England, the blockade of the Southern ports caused a cotton famine and widespread misery among the cotton operatives of Lancashire. Through the negligence of the British Government, the Alabama after being fitted out in a British port as a cruiser and blockade-runner for the South was allowed to put to sea and serious complications ensued, which, however, had a very happy consummation. For under the first Gladstone Ministry (1868-1874) it was agreed by the Treaty of Washington (1871) to submit the Alabama claims to arbitration, and the same year saw the conclusion of peace between France and Germany. In 1872 the Geneva Tribunal awarded three millions in damages to the United States. The payment was made, and friendly relations between the Anglo-Saxon races were re-established, let us hope, for all time.

We now return to the armaments race between France and England. On the British side of the Channel, it was started by the First Lord of the Admiralty, Sir John Pakington, who asked for more men and money because the navy was not "in a proper and adequate state for the defence of our coasts and the protection of our commerce." The statistics he produced in support of this demand were shown to be wholly inaccurate. He had left out nine line battleships employed in the coast-guard reserve; he had included ships building in France, while excluding those building in England; and he had counted among the effective ships of France many old stagers which had no fighting value. The Admiralty, indeed, showed itself to be mentally as wooden as the large wooden ships which it proposed to go on constructing at the unprecedented rate of forty thousand tons within the year 1860—a proposal which, as it

happened, was quashed by an uprising of common sense in the House of Commons. In the meantime Cobden exposed the absurdity of the alarm in his powerful pamphlet 'The Three Panics,' and Gladstone contested the new expenditure with all his force in the Cabinet. In one of his Memoranda, he made a general observation which ought always to be remembered in similar circumstances: —

“We have no adequate idea of the predisposing power which an immense series of measures of preparation for war on our part has in actually begetting war. They familiarise ideas which lose their horrors; they light an inward flame of excitement of which, when it is habitually fed, we lose consciousness.”

But for the moment Palmerston, supported by a majority of the Cabinet, had his way; and the panic only subsided through a diversion which created a peaceful psychology among the industrial and commercial classes.

In September, 1859, Cobden visited Gladstone at Hawarden and they discussed the possibility of a commercial treaty with France, the idea of which was already in the air. In his *Life of Gladstone*, Book V, chapter II, Morley writes:—“Bright had opened it, Chevalier had followed it up, Persigny agreed, Cobden made an opportunity, Gladstone seized it.” It was arranged that Cobden, who was visiting Paris, should, with the informal sanction of the British Government, communicate with the Emperor Napoleon and his Ministers, “and work out with them the scheme of a treaty that should at once open the way to a great fiscal reform in both countries, and in both countries produce a solid and sterling pacification of feeling.”

Cobden, with his “incomparable gifts of argumentative persuasion,” captured the Emperor’s impressionable mind; and by the beginning of next year, January, 1860, the plan was ready for the Cabinet. On January 28th,

Gladstone wrote to Cobden :—" Criticism is busy ; but the only thing really formidable is the unavowed but strong conflict with that passionate expectation of war, which no more bears disappointment than if it were hope or love."

The Cobden Treaty was a great measure of commercial emancipation which invigorated the commerce and industries of both countries, and the volume of cross-Channel trade grew rapidly in the next decade. It was a treaty of reciprocity. But there was no differentiation against foreign countries. In the Budget of 1860, which incorporated the French Treaty, Gladstone reduced the articles subject to customs duty from 419 to 48, and by the Most-Favoured-Nation Clause all the remissions were extended to other countries. But neither in Gladstone's nor Cobden's mind were economic reasons predominant. They were both inspired by high moral and political considerations—to avert the threatened war with France, to arrest the wasteful and menacing competition in armaments, and to promote international goodwill. As Gladstone put it in a Memorandum on the subject :—

" A French panic prevailed, as strong as any of the other panics that have done so much discredit to this country. For this panic the treaty of commerce with France was the only sedative. It was in fact a counter-irritant ; and it aroused the sense of commercial interest to counteract the war passion. It was, and is, my opinion that the choice lay between the Cobden Treaty and not the certainty, but the high probability, of a war with France."

What a tragedy that the Franco-German quarrel, which has caused an almost interminable series of hostilities since the time of Caesar, culminating in the greatest disaster of modern times, was not laid to rest seventy years ago by similar means !

One effect of the Cobden Treaty was that it arrested the

growth of tariffs and promoted their reduction in many other countries, with the unfortunate exception of the United States, which adopted high Protectionism after the Civil War. For Great Britain, which wisely maintained neutrality, not only in the Wars of 1866 and 1870, but in all the foreign wars that took place up to 1914, the Cobden Treaty started an amazing growth of commerce and industry. Free and expanding trade was happily combined with a rapid reduction in the burdens of taxation, and an elasticity of revenue which facilitated a growing and fruitful expenditure on education, public health, and the social services. Gradually the mind of the Cabinet, the House of Commons, and the country was prepared for the reductions in military and naval expenditure which Gladstone effected by his own personal exertions with the aid of a loyal and efficient Treasury. Before 1866 the Army and Navy Estimates had been reduced by several millions. They were increased a little by the Conservative Government; but after the general election of 1868, Gladstone, Prime Minister for the first time, restored public economy and insisted on combining retrenchment with efficiency in all the spending Departments. The abolition of the army purchase system and the Cardwell reforms gave us an army well adapted to the defence of India, and the navy was maintained at a strength equal to all emergencies. When the French Emperor in 1870 declared war on Prussia, Gladstone saved Belgium and Luxemburg from invasion by treaties with both powers, which provided that Great Britain would remain neutral so long as neither France nor Germany violated the territories of Belgium and Luxemburg. But if either France or Germany broke the agreement, Great Britain would join that Power which had honoured the agreement and make war on the

aggressor. The success of this diplomacy made it easy for the British Government to maintain neutrality, besides saving two small peoples from the fate which befell them forty-four years later.

After the Great War, the writer of these pages visited Luxemburg, and learnt there how a detachment of Prussian troops in 1870 had appeared at Wasserbillig, but had turned back when the Burgomaster, standing on the bridge warned them that they were approaching neutral territory. In 1914 another Burgomaster warned the German Army back; they laughed, and placed him on a car and carried him to Luxemburg. The splendour of the equipment of the invaders was not less impressive than the miserable condition of the survivors four years afterwards when they retreated with worn-out cars, ragged clothing, in a half-starved condition, to their own country. The Luxemburgers had not been ill-treated, and in 1920 they had returned to their old ways. The Prime Minister said that the standing army had been increased from 250 to 300 men, which represented about 1 per 1,000 of the population. It was, and remains, one of the few countries in the world which does not suffer from the burden of armaments.

From this digression we return to our general review of armaments. In the case of Great Britain there were no important changes during the 'seventies, and the growing prosperity of all classes added so much to the revenue that in 1874, when he dissolved Parliament, Gladstone saw his way to the total abolition of the income tax. The Conservative Party was victorious, and Disraeli was content to reduce the income tax to twopence in the pound. His administration lasted until 1880, and towards the close of the period, colonial wars caused some addition to the cost of armaments. In the same way

military and naval expenditure was raised slightly during Gladstone's second Administration of 1880 to 1885; by the wars in Egypt and the Sudan, as well as by the Russian menace to Afghanistan and India. But on the whole, during the period from 1863 to 1884, there was no serious growth in British armaments. Our naval expenditure averaged about ten millions a year, while that of France was also stationary, at about six and a half to seven and a half millions, or roughly in the proportion of two to our three. The annual cost of the British army in the same period ranged from fourteen to sixteen millions, with some tendency to increase in the later years. In 1884, W. T. Stead, a sensational journalist, had a fit of Jingoism which led the Admiralty to propose a large increase of naval construction, though the comparative strength of the British and French navies had not altered, and there were no other visible dangers. In the *Annual Register* of 1884 we read :—

“There were a few anti-alarmists or sceptics who declared that the outcry in the newspapers was chiefly, if not wholly, the work of the professional advisers of the Admiralty, assisted in a great measure by the large shipbuilders, whose yards were empty and whose trade was temporarily at a standstill.”

Although Stead's campaign did not endanger peace and failed to increase very greatly the burden of armaments, he may fairly be regarded as the originator of methods which have since done infinite mischief, both at home and abroad. No doubt circulation was one of his objects as Editor of the *Pall Mall Gazette*, which had the advantage for this purpose of being a Liberal newspaper, and therefore in a good position to damage Gladstone's Government when the First Lord of the Admiralty—Lord Northbrook—defended his estimates against Conservative and professional attacks. Stead began

with an editorial on September 15th, 1884, entitled "What is the truth about the Navy?" in which he asked:—"Can we or can we not demonstrate beyond all gainsaying our irresistible superiority in armour, guns, speed and coal-carrying capacity over any combination of fleets which it is reasonable to believe could be brought against us?" This was followed next day by a five-page article packed with mysterious technicalities and unintelligible statistics, which Stead described as startling disclosures and as alarming proofs of the weakness of our defence. He added that Arnold Forster, the author of the article, had submitted his statement to the examination of the most careful and competent authorities in the Service. Letters of support followed from Admirals, whereupon the *Pall Mall Gazette* was moved to say that "the unanimity of assent is bewildering and appalling." *The Observer* declared:—"The plain truth is that the English Navy has no longer command of the sea;" and the *Daily Telegraph* professed to hear a "cry of patriotic anxiety rising in the country to which no Ministry could close its ears."

There was no justification for the alarm and no popular panic; but the Government made some concessions to the newspaper campaign by a special programme of expenditure amounting to over five millions for shipbuilding, guns and coaling stations. On November 17th, a Supplementary Budget was brought in which raised the income tax from fivepence to sixpence in the pound; and this very moderate call on the pockets of taxpayers satisfied the public and quieted the critics. Naval expenditure rose from under £11 millions in 1884 to over £13 millions in 1886, when, on the Home Rule issue, a Conservative Unionist Government was returned to power, with Lord Salisbury as Premier and Lord Randolph

Churchill as Chancellor of the Exchequer and Leader of the House of Commons. Churchill endeavoured to enforce reductions of the Navy and Army Estimates. On the Army Estimates, Salisbury refused to support him. Thereupon Churchill resigned, but "forgot Goschen," who became Chancellor. Churchill acted precipitately, and his action did more harm than good to the cause of economy. Meanwhile the increase of British expenditure on the Navy was followed by a similar rise in French expenditure, which advanced to nearly £8½ millions in 1887, while that of Russia rose from £3½ millions in 1884 to over £6 millions in 1889. German expenditure in the latter year was £4,210,000. In 1889 the total expenditure on their navies of the three next Powers in Europe came to about £18½ millions; while the expenditure of the British Admiralty, swollen by a transfer of votes from the Army Estimates, was close upon £17 millions. After this it was gradually reduced to £15,702,000 in 1893, in which year French naval expenditure was £10,136,000, Russian £5,543,000, and German £5,212,000.

Invention, which has done so much to enrich mankind and to increase the amenities of civilised life, has also accentuated the competition in armaments and greatly increased not only the burdens of peace time, but the sufferings and devastations of war. In the history of naval armaments, hardly a decade has passed during the last half-century without some invention which has made the existing navies and naval armaments more or less obsolete, thus enabling any government (if it has the money) to make a bid for naval supremacy. At the Queen's Jubilee of 1887, there was a grand review of the Fleet in the Solent, when 128 vessels were collected without drawing upon our foreign squadrons. By 1905 it was pronounced that none of these ships had any fighting value.

Lord George Hamilton, who was First Lord of the Admiralty in 1887, was content for a time to maintain a moderate and steady policy, saying that this was more effective than "any hasty and spasmodic expenditure" which would involve the certainty that "a portion of the expenditure would be wasted by the very haste requisite." It was a mistake, he argued, to lay down ships by the dozen, for they would all be likely to disclose common defects. Nevertheless, in 1889, he adopted the very course he had condemned. Under the Naval Defence Act of that year it was provided that seventy new warships should be constructed at a cost of over £21 millions. The expenditure was to be spread over five years, and covered by a loan, of which one-seventh was to be defrayed annually out of revenue. Eight new battleships were to be laid down of a far greater size (14,000 tons) than any previously constructed. To justify his programme, Lord George Hamilton introduced the idea of a two-power standard, *i.e.*, of a British Fleet equal to the naval strength of any two countries, instead of a Fleet one-third stronger than the French. An experienced naval administrator, George Shaw Lefevre, speaking for the Liberal Opposition, objected to the policy of the Naval Defence Act on the ground that it would only stimulate other Powers to make corresponding additions to their navies. This is precisely what happened; for within a few weeks of the passing of the British naval programme, the French Minister of Marine asked the Chamber for more money to build more ironsides. Three were added in 1889 and six in 1890. No less than thirty-eight of the British cruisers provided under Hamilton's Act were condemned as worthless in 1905.

In 1892, when Mr Gladstone returned to office, British naval expenditure stood at £16,649,000, and in 1893 it

was reduced to £15,702,000, which was just about equal to the combined expenditure of the next two Powers—France (£10,136,000) and Russia (£5,543,000), that of Germany being only £5,212,000. It may be added that the naval expenditure of the United States, which was not treated as a possible enemy, amounted in 1892 to 29 million dollars and in 1893 to 30 million dollars. In 1898 and 1899, owing to the Spanish War, it rose to 58 and 63 million dollars, returning to 55 million dollars in 1900.

In December 1893, Lord George Hamilton, with the support of the Unionist Party and most of the newspapers, declared that a substantial increase of the Fleet was immediately necessary in order to insure its equality with the fleets of France and Russia combined. There was a full dress debate in the House of Commons. The attack on the Government was aided by strong speeches from Balfour and Chamberlain; while Sir Charles Dilke and some other Ministerialists sympathised with the demand for an enlargement of the naval programme. The Government was only saved from defeat by a great debating effort on the part of Gladstone, who felt that British naval expansion was not only unnecessary but would have very mischievous results.

Nevertheless at the beginning of the following year Lord Spencer, the First Lord of the Admiralty, was persuaded by his naval colleagues to propose and press upon the Cabinet a new five-year plan, which would involve an annual expenditure of nearly five and a half millions on new ships, as compared with the average of £1,800,000, which a few years earlier Lord George Hamilton had deemed amply sufficient.

When Gladstone found that, with one or two exceptions, his Cabinet colleagues supported Lord Spencer,

he felt that he could no longer remain head of the Government, and declared privately that the naval estimates were "mad and drunk." In a conversation with John Morley, reported in the *Life of Gladstone*, he said he was "deeply convinced that all excess in the public expenditure beyond the legitimate wants of the country is not only a pecuniary waste, but a great political, and above all a great moral, evil." In a letter to the Increased Armaments Protest Committee, on June 30th, 1896, one of his last pronouncements on public policy, he wrote:—"No words could be too strong to convey the warmth of my sympathy with you in the protest you are manfully lodging against the wild, wanton, and most perilous expenditure in which the country has thought fit to engage. Let us pray for an early awakening to common sense and the ideas of our fathers and grandfathers."

Gladstone's dark forebodings proved to be well founded. From this time forward naval and military expenditure at home and abroad moved upwards either gradually or by leaps and bounds. When Lord Rosebery's short-lived Administration gave way after the general election of 1895 to Lord Salisbury's Unionist Government (with Chamberlain as Colonial Secretary) frontier wars in India, the Jameson Raid in South Africa, serious quarrels with the French in Siam and Central Africa, helped to raise the cost of warlike preparations both at home and abroad. Goschen, the new First Lord of the Admiralty, increased the outlay on the Navy from £19 to £31 millions during his five years of office. In 1897, the second Jubilee year, another naval review took place in the Solent; and *The Times* described the British Fleet as "certainly the most formidable in all its elements and qualities which has ever been brought together, and such as no combination of other Powers can rival." Yet in

the following year, Goschen proposed a new building programme, and in 1899 declared that his increased estimates, far from being aggressive, were "forced upon us by the action of other countries."

At last in 1898 and 1899 the first great effort of modern statesmanship to bring peace and disarmament into the modern world was conceived and attempted. Strangely enough, the initiative was taken by the Czar, an autocrat whose huge Empire depended on force. He was influenced, it was said, by a Polish writer, Jean de Bloch, who had persuaded himself of the growing futility and destructiveness of modern warfare, and of the probability that great wars, after consuming perhaps millions of lives, would end in stalemate and bankruptcy. In a rescript of August 24th, 1898, addressed to the Governments of all other countries, Czar Nicholas II invited them to send representatives to a Conference at the Hague. His note began :—" A universal peace, and reduction of the intolerable burdens imposed on all nations by the excessive armaments of to-day, is the ideal towards which every Government should strive." The time, he argued, was then " very favourable for seeking by international discussion the most effectual means of assuring to all peoples the benefits of a real and durable peace ; for the financial charges imposed by armaments were paralysing economic prosperity, and the accumulation of war material was transforming armed peace into a crushing burden." The Czar therefore proposed a diplomatic conference to discuss whether an understanding could be achieved to arrest the growth of military and naval armaments, and also to create a new organisation of good offices, or mediation and arbitration, as a means of settling international disputes. This, the first Conference at the Hague, sat from May 18th to July 29th, 1899. It passed

three conventions—one for the pacific settlement of international disputes, and two others relating to maritime warfare and prohibiting the use of expanding bullets, the dropping of explosives from balloons, and other cruel and inhuman inventions. Its most valuable result was the creation of an International Court of Arbitration, with its seat at the Hague, to which Governments might submit their disputes, instead of appealing to the arbitrament of war.

Unfortunately the Delegates of the leading Powers could not agree to a definite restriction of armaments, and merely recommended their Governments “to examine the possibility of an understanding concerning the limitation of military and naval armaments and war budgets.” Germany was definitely opposed to any limitations. The Kaiser’s representative, General von Schwarzhoff, declared to the First Committee of the Hague Convention (June 27th, 1899):—“The German people is not crushed under the weight of charges and taxes. Quite the contrary, public and private wealth is increasing. So far as compulsory military service is concerned, which is so closely connected with these questions, the German does not regard this as a heavy burden, but as a sacred and patriotic duty to which he owes his country’s existence, its prosperity and its future.”

CHAPTER III

FROM THE BOER WAR TO THE GREAT WAR, 1899-1914

HARDLY had the first Hague Conference concluded its sittings when the quarrel between the two Boer Republics and the gold-mining interests of Johannesburg (backed by Cecil Rhodes, the Chartered Company and Chamberlain, the Colonial Secretary), broke out into a war (October, 1899) which proved far more difficult than the British Government had anticipated. It was expected by the military authorities to end before Christmas and by the Chancellor of the Exchequer, Sir Michael Hicks-Beach, to cost about ten or eleven millions, which would be paid for by the gold-mining industry. The Boers, however, proved tough and skilful fighters; and the war lasted until April, 1902, by which time it had cost Britain £250 millions sterling, and added £160 millions to the National Debt. Other countries had had their troubles. Spain had lost Cuba, the Philippines and Porto Rico in 1898 after a war with the United States. China, after being defeated by Japan in 1894-5, was deprived of various territories by the rapacity of the Powers, and convulsed by the Boxer Rising, which ended with an international occupation of Peking and the signature of peace in 1901. A quarrel between Japan and Russia over Korea and Manchuria then began to develop. Russia was supported by France and French money; Japan by an alliance with Britain and by loans which she was able to raise in London. Eventually, in February,

1904, Japan launched an ultimatum. The great Empire of Russia was defeated by land and sea, and in the autumn of 1905 the Treaty of Portsmouth extended the Japanese Empire to Korea and expelled the Russians from Manchuria. The War had cost both sides about two hundred thousand killed and wounded and a hundred millions of money. Japan was now a first-class Power and made its entry into the race of armaments.

The weakening of Russia by this humiliation in the Far East altered the balance of power in Europe, strengthening the Triple Alliance of Germany, Austria and Italy as against France and Russia. The old friendship between Britain and Germany, based partly upon history and the wars with Napoleon, partly on royal marriages, had given place to commercial jealousies and diplomatic controversies. The Kaiser's telegram to Kruger on the Jameson Raid, and his announcement that Germany's future lay on the water, led to a momentous change in British foreign policy, beginning with an Entente with France (1904-6) and later on with Russia. The gulf between Britain and Germany widened and deepened, until, without the knowledge of Parliament, we were potentially committed by secret military and naval conversations and diplomatic understandings to war on the Continent. The Agadir crisis of 1911 should have served as a warning, for we were then on the brink of war; but after this the tension relaxed, and both the Prime Minister and the Foreign Secretary, Sir Edward Grey, assured the House of Commons that the Entente with France and Russia was purely diplomatic, and that no military or naval obligations attached to it.

Nevertheless the years between the Boer War and the Great War were marked by many alarming incidents and by constant and menacing increases in the burden of

armaments. True, good things were mingled with bad. In 1905 the Duma was established in Russia. In 1906 and 1907 the Government of Sir Henry Campbell-Bannerman made a real peace in South Africa by granting responsible government to the Transvaal and Orange Free State, and in 1910 the Union of South Africa was proclaimed. On the other hand, the annexation of Bosnia and Herzegovina by Austria in 1908, the annexation of Korea by Japan in 1910, the seizure of Tripoli by Italy in the following year, and the Balkan Wars of 1912 and 1913, all helped to open new wounds or to aggravate old discords. British naval and military budgets, after a brief respite between 1905 and 1907, reflected the dark and stormy clouds that overhung Europe and the Near East. The growth of military expenditure in Great Britain was less rapid than that of naval expenditure, but some additions were made in consequence of the preparations for taking part in a hypothetical war on the Continent. The traditional policy of the War Office had been explained in 1888 as follows :—" The probability of the employment of an army corps in the field in any European War is sufficiently improbable to make it the primary duty of the military authorities to organise our forces efficiently in the defence of this country." But from 1906 onwards, Haldane and his staff of military advisers, along with the Committee of Imperial Defence, were discussing secretly with the French and Belgian General Staffs arrangements for landing a British Expeditionary Force in France or Belgium ; and for this purpose, unknown to the public, considerable preparations were necessary.

Between 1884 and 1904 the cost of the Army had risen from about £17 millions to 33½ millions ; while that of the Navy had risen from £11 millions to £42¼ millions.

Thus in twenty years British expenditure on armaments had nearly trebled, and it had been necessary in consequence to impose death duties, additions to the income tax, a new duty on sugar, and increases in the taxes on tea, tobacco, beer and spirits. Nevertheless, before and after the South African War the National Debt was steadily reduced and budgets were balanced. Under Haldane's administration from 1906 onwards, the efficiency of the Army was increased without any large additions to expenditure; and real savings were effected by the policy of Mr Asquith, when, as Chancellor of the Exchequer, he put an end to loans for military and naval works. The cost of the Army only rose from £27,765,000 in 1906 to £28,346,000 in 1913; whereas the Navy estimates rose in the same period from £31,434,000 to £48,833,000. Partly to meet this new expenditure, partly to pay for the cost of Old Age Pensions, Mr Lloyd George, in the so-called "People's Budget" of 1909, introduced the 'super-tax' on large incomes, and added to the Death Duties. Before the Great War, the standard rate of income tax was raised to 1s. 3d. in the pound, and the super-tax started on incomes exceeding £3,000 a year.

Hitherto nothing has been said about what has been described as the Dreadnought Panic, due in the first instance to the personality of Sir John Fisher, who knew how to impress his views on Ministers. When Lord Goschen, who had preached the doctrine of Magnificent Isolation (a bombastic equivalent for Non-Intervention) left the Admiralty, he was succeeded by Lord Selborne, and in March 1905 Selborne was followed by Lord Cawdor. Fisher persuaded Cawdor to start a new and more powerful type of battleship, designed under Fisher's instructions, which was calculated to make all previous vessels obsolete as first-class fighting ships. The design

and building of the first Dreadnought was surrounded with an air of secrecy and mystery; but Fisher was a very ambitious man; and as Sir George Clarke, one of his colleagues on the Defence Committee once remarked, "he was apt to combine secrecy with self-advertisement." For a year or two the building of the Dreadnoughts gave the British navy an advantage; for having a start in laying down the new ships we could build them faster. But in the long run the new policy was a huge blunder. In 1905 Britain had a great preponderance of battleships over any possible combination of Powers. This advantage was now largely thrown away, as any other Power, by spending as much as Britain on the construction of the Dreadnought class of battleship and battle cruiser, might now hope to challenge British naval predominance.

Fisher's action appears all the more foolish when it is recalled that he had singled out Germany and the German Fleet as the enemy. One of his objects was to gain a special advantage over Germany from the fact that a Dreadnought was too large for the Kiel Canal. To meet this the Canal was widened, at great expense, but the work was not completed until 1914. A similar expense, however had to be incurred by the British Admiralty; for many of our docks and harbours had also to be enlarged, so that the new Dreadnoughts proved even more expensive than they appeared to be. Instead of deterring Germany, the invention of the Dreadnought invited the Kaiser and his Admirals to build a new High Fleet in the North Sea, and within three years of the laying-down of the first Dreadnought, a Dreadnought Panic was launched by the Unionist Opposition under Balfour with the support of the armament manufacturers, the naval experts and a large section of the press. The savings effected in 1906

and 1907 rapidly disappeared ; and Sir Henry Campbell-Bannerman's death in 1908 paved the way for Imperialism alike in foreign policy and armaments.

In the naval estimates of 1909, an addition of nearly three millions was demanded ; but it was now discovered that the Dreadnought class alone counted, and Balfour, the leader of the Opposition, who had been responsible for the first Dreadnought, declared that, in December 1910, Germany would have thirteen Dreadnoughts against Britain's ten. It turned out that in 1912 Germany had only nine Dreadnoughts, and the British superiority in battleships in that year was enormous. There was, however, a great stir in the press, and instead of the four, eight battleships were demanded with the cry " We want eight : We won't wait."

Mr Winston Churchill, then President of the Board of Trade, ridiculed the " dreadnought fear-all school," and added :—" it is lucky the sailors don't believe them." He denounced the German Invasion Scare, as " a false lying panic started in the Party interests of the Conservatives." At Manchester he upbraided the panic-mongers for demanding " a braggart and sensational expenditure on armaments," which, he said, " I have always been against, as my father was before me." Perhaps his finest flower of rhetoric, and that which most delighted his Radical friends—it was often re-printed—ran as follows :

" In my judgment a Liberal is a man who ought to stand as a restraining force against an extravagant policy. He is a man who ought to keep cool in the presence of Jingo clamour. He is a man who believes that confidence between nations begets confidence, and that the spirit of peace and goodwill makes the safety it seeks. And above all, I think, a Liberal is a man who should keep a sour look for scaremongers of every kind, and every size, however distinguished, however ridiculous—and sometimes the most distinguished are the most ridiculous—a

cold, chilling, sour look for all of them, whether that panic comes from the sea, or from the air, or from the earth, or from the waters under the earth."

About this time a friendlier tone began to reduce the friction between Germany and Great Britain. Prince Bülow, the German Chancellor, stated definitely that Germany would have only thirteen dreadnoughts in 1912, instead of sixteen which Mr McKenna stated that she would have in 1911, when he was justifying a heavy addition to the estimates.

Mr Lloyd George's budget—the so-called "People's Budget"—revealed a prospective deficit of fourteen millions, due mainly to Old Age Pensions and the expansion of armaments, which he met by increased taxation of the drink trade and motoring, and by graduating death duties and income tax. The super-tax on high incomes was thought to be a suitable means of paying for super-dreadnoughts. The budget was thrown out by the House of Lords, and two general elections, fought on the budget and the House of Lords in 1910, maintained the Liberal Government in office, with a large, though reduced, majority.

Though his diplomacy was involving Great Britain in the antagonistic groupings of the European Powers, Sir Edward Grey was alive to the evils of competitive armaments. He said about this time that the burden "if it goes on at this rate, must lead to national bankruptcy":—

"You may call it national insurance. That is perfectly true; but it is equally true that half the national revenue of the great countries in Europe is being spent on what are, after all, preparations to kill each other. Surely the extent to which this expenditure has grown really becomes a satire and a reflection on civilisation. Not in our generation perhaps; but if it goes on at the rate at which it has recently increased, sooner or later, I believe, it will submerge that civilisation."

These gloomy pressages were to be amply fulfilled. Ten years later, two of the great powers, Russia and Germany, were utterly bankrupt, and their currencies became worthless. Austria was in the same plight, and ceased to be a Great Power, while France and Italy, and the other small countries involved in the War, were compelled to reduce their debts to fractions of their value by devaluations and depreciations of the currency. It may here be added that, between 1907 and 1912, the naval expenditure of Britain rose by £12,880,000, and that of Germany by £8,384,000. Between 1901 and 1912, the total naval expenditure of Britain was £456 millions, and of Germany £179 millions.

Even before the War, the strain on German finance was becoming severe. Between 1897 and 1912, the cost of the German Army had risen by nearly £17 millions and of the Navy by nearly £18 millions. In 1913 it was thought necessary to introduce a capital levy of £50 millions for armaments and fortifications. When we come to the naval estimates of 1914, just before the outbreak of the Great War, we find that the expenditure of Britain, France and Russia amounted to £51, £25 and £23 millions respectively; that of Italy was over £10 millions; that of Germany, £23 millions; and that of Austria £7 millions. The naval expenditure of Japan was £10 millions.

In expenditure on the Army, Russia led the way. Its Army Estimates amounted in 1914, on the eve of the Great War, to £79 millions sterling. Germany followed with £71 millions, France with £57 millions, and Austria with £31 millions. Britain proposed to spend £28 millions, Italy £18 millions and Japan not quite £10 millions.

Meanwhile the expenditure of the United States since

the war with Spain had risen rapidly, though it was still low compared with that of other powers in proportion to its wealth and population. In 1897, American expenditure on the Army was under £10 millions sterling. It had risen to £23½ millions in 1906, and to nearly £30 millions in 1912. Expenditure on the Navy had risen from about £7 millions sterling in 1897 to £22 millions in 1906, and £27 millions in 1912. Expenditure on veterans' pensions, a time-honoured scandal of American finance, was over £28 millions in 1897 and over £30 millions in 1912. In 1914 the naval expenditure of the United States was less than a million higher than in 1912; but the military expenditure had risen by about £5 millions.

CHAPTER IV

ARMAMENTS FROM THE GREAT WAR TO THE DISARMAMENT CONFERENCE

THE cost of the Great War in terms of human life, taxes, public debt and private losses, has been the theme of thousands of articles and hundreds of studies by economists and publicists.

Expert estimates of the mortality caused by the war give a total of over thirteen million killed, to which must be added an incalculable number of maimed in the armies of the belligerents. The deaths of non-combatants, killed by the combatants, or caused by famine and disease, amounted it is supposed to over twenty-eight millions. Since then a reckless disregard for human life has been more conspicuous on the road than on the battlefield.

The total war costs paid somehow or other by all the nations involved have been estimated at one hundred thousand millions sterling; nor does this include the losses entailed on neutral countries in trade or in additional expenditure on defence.

In the case of Great Britain and the Dominions both casualty lists and expenditure mounted very rapidly as the war went on. In the autumn of 1914 the British Government was spending a million sterling a day (in depreciated paper money; for we had left the gold standard). In the autumn of 1915 our expenditure had risen to four and a half millions sterling a day; and when the United States joined the Allies in 1917 British expenditure was running at the rate of seven millions a day. When the war began, the national debt of Great Britain was about £650 millions; when the war ended it exceeded

seven thousand millions sterling. At the end of the war the whole of the debts contracted by the Governments of Russia, Germany and Austria, and the greater part of the debts of France, Italy and Belgium were confiscated or became valueless, ruining the people, rich and poor, who had subscribed voluntarily or under compulsion for the carrying on of the war and (before 1914) for useful purposes such as railways and public health.

A side-light on the cost of modern warfare is thrown by a statement of the late Field-Marshal Sir William Robertson, that the preliminary British bombardment at Arras, Messines, and Passchendaele cost fifty-two millions sterling.*

It is outside our purpose in this book to enter at any further length into the ghastly consequences of 'the war to end war,' or to deal with the origin and history of the war debts contracted by the Allies between themselves and with the United States, though it may be pointed out that but for the financial support of Great Britain and the United States the financial and economic resources of France, Italy and the smaller Allies would have been completely exhausted long before the Armistice. Another war on the same scale would speedily exhaust the credit and taxable capacity even of Great Britain; for we should begin the second war with taxation as high as it was when the first ended.

German Reparations provide an early and instructive chapter in the history of the gradual breakdown of the provisions of the Peace Treaty. The British representatives at the Peace Conference proposed the insane figure of eleven thousand millions sterling. In 1921 the total was "fixed" by the victorious allies at 6,600 millions

*See *What the League has done*, by Fanshawe and Macartney. League of Nations Union publication, 1936.

sterling. In the following year, 1922, the total was reduced to 2,500 millions sterling; but, as Germany was unable to pay the instalments, the British Government in 1923 proposed that the Allies should lower their demands to 1,975 millions sterling. After further reductions in 1924 under the Dawes' Report, and in 1929 under the Young Plan, the German Government agreed in 1932 to pay, after three years, 150 millions sterling, on the understanding that there should be a general cancellation of war debts. Thus, after twelve years, Germany's European creditors agreed to a final payment of less than sixpence in the pound on their original demands, in the hope (which was not fulfilled) that the United States would join in an all-round cancellation of outstanding war debts, as between belligerents.

After the Hoover moratorium in 1931 another Conference was held at Lausanne and Reparation payments were abandoned.

As most of the national debts of the belligerent countries were confiscated or partly confiscated by open repudiation or the depreciation of paper currencies, it is useless to tabulate them; but the following comparison between the pre-war and post-war national debts of Great Britain and the United States is of value, having been supplied to the House of Commons by the Chancellor of the Exchequer on July 11th, 1929. On March 31st, 1929, the total National Debt of Great Britain was almost exactly £7,500,000,000 being £164 per head. That of the United States at the same date was just under 1,700 million dollars, being £29 per head. In 1913 the British National Debt was £3 11s. 4d. per head and that of the United States was six dollars eighty cents per head.

After the war all the belligerent nations of the Continent were in a state of insolvency. True, the degrees of

insolvency varied, ranging from total bankruptcy and repudiation of all its war and pre-war debts, internal and external (whether borrowed for war, for railways or for municipal purposes) by the new Communist Government of Russia, down to the reduced payments on national debts of France, Italy and Belgium, whose compositions with their private creditors were effected by devaluations of currency, with the result that ultimately the unfortunate investors in government bonds had to be content with a little more or less than a quarter of the interest which their Governments had contracted to pay. For a time Germany and some of the other defeated nations were saddled (as we have seen) with an intolerable load of indemnities or reparations, payable partly in money and partly in kind. They were relieved, however, from the burden of conscription, and in most cases their expenditure on armaments was severely limited by the Peace Treaties. The United States, Japan, and Great Britain, alone of the belligerent powers, were able to maintain their credit. The United States, though its National Debt had risen from 1,188,000,000 dollars to 24,297,000,000 dollars, speedily regained its industrial prosperity; but American farmers, being largely dependent on exports, were hard hit after 1920, when prices collapsed. Japanese trade flourished and expanded during the War, but suffered when the post-War boom subsided. Great Britain recovered gradually from the severe depression of 1921-22. It maintained, with some exceptions, its Free Trade policy, and was able to restore the Gold Standard in 1925 and, by effecting various economies in bloated post-war establishments, to reduce the income tax from six to four shillings in the pound.

Five years after the Peace, the armament expenditures of the four great continental powers—Austria having

been eliminated—may be compared with fair accuracy, save in the case of Russia, where the real value of the rouble is almost unascertainable, as it was only a tiny and fluctuating fraction of the official exchange rate.

The official expenditure of France in 1924 on Army and Navy totalled about 5,775 million francs.* Of this total 1,252 million francs were being spent on the Navy, and the remainder on the Army, including the cost of the Army of Occupation.

In Germany the total expenditure on armaments in that year (1924) was 458 million reichsmarks of which about 365 millions were spent on the small voluntary Army, and about a hundred millions on the Navy. Converted into sterling, the total expenditure of Germany in this year on armaments may be put at about 11 millions.

The total expenditure of Italy on armaments in the year 1924-5 was about 4,000 million lire, and the lira in that year was worth less than one-sixth in purchasing power of the pre-War lira. Its value, therefore, was about three-halfpence. Of this total less than a thousand million lire was spent on the Navy, the remainder on the Army at home and abroad, and on aviation. Thus in terms of 1913 sterling, the total armaments expenditure of Italy in 1924-5, may be estimated at about £25 millions, rather more than double that of Germany.

We now come to the official estimates of the Soviet Government of Russia, which are given by the League of Nations at 436 million roubles, without discrimination between Army, Navy and Air Force. In the opinion of the writer this official figure is almost worthless; but if it has to be converted into sterling, it may be added that

*The paper franc had been fluctuating downwards, and was in that year worth only about one-fifth of the old franc—*i.e.*, twopence. Hence converted into sterling the *ordinary* armaments budget was only about 48 millions. But a depreciating currency is not at once reflected fully by a rise in public expenditure.

the official rate of exchange was two shillings to the rouble, and that English visitors to Russia found that the purchasing power of a rouble in any market that was available to them was somewhere between a penny and twopence.

When we pass to the three other great Powers—the United States of America, Britain and Japan—we are again on firm ground. In 1924 the military expenditure of the United States, excluding pensions, was 244.6 million dollars, and the naval expenditure 344.6 million dollars. The total, therefore, was not quite 590 million dollars. The purchasing power of the dollar was then about two-thirds of the pre-War dollar.

Meanwhile, Great Britain, in spite of the reductions following the Geddes Report, maintained a total expenditure of 121 millions sterling, of which over $44\frac{1}{2}$ millions were for the Army, over $55\frac{1}{2}$ for the Navy, and over $14\frac{1}{2}$ for the Air Force. There was also a military expenditure of 5 millions on "middle-eastern services" and other small sums were spread over other departments, making up the grand total of 121 millions. But in comparison with 1913 the real expenditure in 1924 had declined; for the purchasing power of the pound in 1924 was much higher than in 1913, as the price level had risen more than 60 per cent. After 1924 it began to appreciate in value as prices declined.

The military and naval expenditure of Japan had fallen from 730 million yen in 1921-2 to 455 million yen in 1924-5, owing mainly to savings on the Navy resulting from the limitations effected by the Washington Conference. In 1924-5 the total expenditure on the Army was 206 millions, of which 27 millions, being "extraordinary," were added to the debt. The total expenditure on the Navy in that year was 248 millions,

of which over 124 millions were ordinary, and over 123 millions extraordinary. The purchasing power of the yen, measured by wholesale price index figures, was only half its purchasing power in 1913. If, therefore, we wished to convert Japan's armament expenditure into pre-War sterling, the yen would be about a shilling, and the total expenditure would be between 22 and 23 millions sterling.

The student of armaments and the student of currencies will find useful material in the following statistics of military expenditure which were given by the then Secretary of State for War in the House of Commons on July 26th, 1929. They supply the expenditure of all the Great Powers in their own currencies in 1913 and in 1924, five years after the peace. In these years the British Army Expenditure rose nominally from 32 to 43.8 millions sterling.

French Army Expenditure rose nominally from 1275 to 3660 million francs.

German Army Expenditure fell nominally from 1602 to 348 million marks.

Russian Army Expenditure fell nominally from 581 to 391 million roubles.

Japan's Army Expenditure rose nominally from 95 to 204 million yen.

Italy's Army Expenditure rose nominally from 343 to 2402 million lire.

United States Army Expenditure fell nominally from 303 to 250 million dollars.*

Meanwhile—though the German menace was removed—British expenditure on the Navy in pounds sterling rose

*In this written answer various cautions are given; but the general comparison is probably fairly correct. The Estimates for 1929 were added. They were Great Britain 40.5 millions sterling, France 7270 million francs (l), Germany 483 million marks, Russia 850 million roubles, Japan 232 million yen, Italy 2716 million lire and the United States 296 million dollars. It will be noticed that the officials who prepared this answer did not take the trouble to find out and inform the House of Commons to what extent the various currencies had depreciated in exchange value or purchasing power, or what was meant by the post-War rouble.

from £48,000,000 in 1913 to £55,000,000 in 1924. In 1913 the cost of the British Air Force was borne by the Army and Navy estimates, in 1924 the estimates for the Air Force had been separated, and the cost was over fourteen millions sterling. The total cost of British armaments rose from about 77 millions sterling in 1913 to about 114 millions sterling in 1924.

Allowing for changes in the value of currencies the period between the Washington Conference of 1921 and the victory of Herr Hitler in 1933 is one during which the burden of armaments was slightly diminished in some countries and was not on the whole much increased. It has been asserted freely but falsely during the recent rearmament campaign even by Ministers that Britain practically disarmed and was left almost defenceless,* so that after Herr Hitler had been in power for two years Germany had become a terrible menace, not merely to Great Britain, but even to the combined forces of Great Britain and France, supposing that Germany meditated an attack upon either. Another absurd mistake is made by those who fancy that the 1920 to 1930 decade of so-called moderate armaments was moderate in comparison with the pre-War years, when the armament race between the Great Powers was regarded with so much apprehension by all lovers of peace.

Both these fallacies can be tested by a comparison in millions of gold pounds of the expenditure of the seven Great Powers. The first column is the average annual expenditure of the years from 1909 to 1914, and the second column is the expenditure of 1930. It will be seen that the expenditure of Germany had been reduced by one-half, while the expenditures of Japan, the United States and Italy had been more than doubled, and those of

*The process was called "unilateral disarmament".

Great Britain, Russia and France had increased by about 50 per cent.

A COMPARISON OF ARMAMENTS EXPENDITURE OF THE SEVEN GREAT POWERS

(in millions of gold £'s)

				Average 1909-13	1930	Percentage increase or decrease
Great Britain	..	..	..	64	95	+ 48
U.S.A.	..	..	..	61.7	145.4	+ 135
Russia	..	..	..	76	118.9	+ 56
France	..	..	..	60	94.0	+ 57
Germany	..	..	..	70	35.1	- 50
Italy	..	..	..	25	53.6	+ 114
Japan	..	..	..	19.7	48.0	+ 143
Totals	..	..	..	376.4	590.0*	

Considering the exhaustion of Europe, the disarmed condition of Germany and the elimination of Austria-Hungary as a military power, it might have been expected that the growth of armaments would be retarded, especially after the factor of Japanese naval rivalry was removed by the Washington Conference. Moreover the League of Nations had been constituted largely for the purpose of disarmament. It might also have been supposed that when the period of international trade recovery, lasting from 1923 to 1929, was ended by the slump in the United States and the world crisis and "the economic blizzard" had impoverished all the nations, causing the

*The above table is taken from a larger one which was published in *The Economist* of July 11th, 1931. In the case of Russia, the figures include War Pensions; but for the other Powers they relate only to the effective services *i.e.*, Army, Navy and Air Force. If War Pensions had been included in the American, British and French figures for 1930, they would have been enormously swollen. The Russian figures for 1930 are not trustworthy, but they may roughly represent the rate of expansion.

insolvency of many Governments and the débâcle of many currencies, there would have been brought about a general retrenchment of unproductive expenditure on armaments. Instead of this, owing partly to the growth of economic nationalism and the raising of tariffs, partly to the menacing preparations of Russia, Germany, and Italy, we have witnessed the most tremendous and alarming outburst of rival expenditure on armaments or re-armaments ever seen in history.

At the end of the post-War decade, on June 29th, 1931, just before Great Britain went off the Gold Standard, Mr Ramsay MacDonald, the Prime Minister, gave the following figures of naval expenditure, in which the foreign currencies were converted into sterling at the exchange rate of 1914, before the Great War, and of 1924 and 1930 respectively :—

		1914	1924	1930
United Kingdom	..	51.5	56.0	52.4
United States	..	30.0	70.0	78.0
France	.. ..	26.7	13.8	24.3
Italy	.. ..	13.3	9.8	16.9
Japan	.. ..	8.5	23.0	26.6

At that time (in 1931) the German Navy and naval expenditure were too insignificant to be worth mentioning.

In the year 1931 the total armament expenditure of the United States in sterling was about £145,000,000, that of France £110,000,000, that of Great Britain £108,000,000, that of Italy £68,000,000, and of Japan £52,000,000. German expenditure was £35,000,000 ; and of this amount rather more than a quarter was spent on the Navy. In the same year, 1931, when the total tonnage of battleships, aircraft carriers and cruisers in the British Navy amounted to over one million tons, that of Germany amounted to only just over one hundred thousand tons.

We cannot help adding our regret that the statisticians of the League of Nations at Geneva have not taken the trouble to estimate, in their large and expensive *Armaments Year Book*, with the assistance of index numbers and rates of exchange, the real and comparative movements of armaments expenditure by the Governments of the world in these post-War years. It seems surprising that this should not have been done in preparation for the Disarmament Conference; for the cost would have been only a tiny fraction of that which was actually incurred for the purpose. It would not have mattered much whether the various currencies were converted into sterling or dollars or gold francs.

For an important relief to the burden of armaments which lay heavy on the victorious Powers—their enemies having been disarmed—the Allies were indebted to the United States. In the autumn of 1920 the American people, disillusioned by the terms of the Treaty of Versailles, had turned against President Wilson and refused to associate themselves with the Covenant of the League of Nations, that one redeeming feature of the Treaty which had been initiated and carried through by Wilson. The Democrats were heavily defeated at the election, and Harding, the Republican candidate, a man of low character and small attainments, was elected President by a large majority. The Republicans had control over both the House of Representatives and the Senate, and their policy of isolation and protection boded ill for international peace. But in the spring of 1921 public opinion, searching vaguely for some moral policy, began to manifest itself very strongly in favour of disarmament as a means of reducing the military and naval burdens which rested upon the nation. In response to this sentiment, Congress cut down the American Army from 288,000 to 175,000,

and the idea of a Naval Holiday was started and endorsed with enthusiasm by religious leaders. In July President Harding, yielding to the general pressure, invited the Governments of Great Britain, France, Italy and Japan to send delegates to a Conference at Washington in November for the purpose of discussing a limitation of naval armaments. The invitations were accepted and the Conference met on November 12th. Charles E. Hughes, Harding's Secretary of State, the leading American delegate, surprised the Conference by suggesting a series of very drastic reductions. He proposed that the United States should scrap 845,000 tons of battleships, Great Britain 583,000, and Japan 289,000 tons; and that there should be no replacement for ten years. As their Navies were comparatively small, France and Italy were to be let off lightly. There were also to be reductions of submarines and auxiliary craft. The chief objections came from France, which flatly refused to co-operate in the reduction of submarines. Eventually large reductions were agreed to by the United States, Great Britain and Japan on the basis that their capital ships should be in the proportion of 5 for the United States and Great Britain and 3 for Japan; while the ratio for France and Italy was to be 1.7. In spite of the difficulties raised by the French, the Hughes' plan was adopted with some modifications; and in February, 1922, the Treaty, having been signed by the Powers, was ratified by the Senate along with subsidiary Treaties condemning the use of poison gas and forbidding submarine attacks on merchant vessels in future naval warfare.

Unfortunately the imposition of a high protective tariff and the refusal of the American Government to join the League of Nations aggravated the distress and difficulties of Europe.

It is of course beyond our scope to attempt even a brief description of the Peace movement within and without the League of Nations, in the years following the War, though all its manifestations have an indirect bearing upon the movements for disarmament and re-armament. Of books recently re-issued the most valuable is that of Professor James T. Shotwell, entitled *On the Rim of the Abyss*.^{*} In Chapter II on "Isolation and Neutrality," will be found a lucid exposition of the two rival peace doctrines—intervention and collective security on the one hand and non-intervention or neutrality on the other. Non-intervention in foreign wars kept both Great Britain and the United States at peace from 1815 to 1914 and 1917 respectively, though the rule in each case was proved by an exception—the Crimean War and the Spanish-American War. After the Great War there was a much stronger revulsion of opinion in the United States to the doctrine of Washington than in Great Britain to the equivalent doctrines of Cobden, Bright and Gladstone. America (whose President, Woodrow Wilson, had framed and carried the Covenant of the League) rejected it, and withdrew into isolation. The growth of dictatorships and the re-growth of rival armaments and warlike equipment in Europe have strengthened the determination of the American people to avoid any possibility of automatic commitment to war. The common American man in the street has been disillusioned. He is resolved not to join in another war like the last "to make the world safe for democracy." In Professor Shotwell's words "Dictators rule in all but the oldest of democracies, and should policies of power set armies on the march again, the farmers of Iowa or

^{*} New York. The MacMillan Company, 1936.

Kansas are not going to line the trenches of the Carpathians or the Vistula."

But this national determination has not prevented the United States from attempting to forward peace while avoiding entanglements of a warlike character. The Paris Peace Pact signed by Secretary Kellogg on August 28th, 1928, and counter-signed by all the principal governments of the world, pledged the nations in their future differences not to resort to war as an instrument of policy. But faith in this and all other treaties has been shattered by the action of Japan in Manchuria and of Italy in Abyssinia, while the failure of the League of Nations in both cases to restrain the aggressor, and the withdrawals of Japan and Germany from the League, have made it less likely than ever that the United States will join it. Nevertheless, a study of Professor Shotwell's book shows that he at any rate does not despair of American co-operation with Great Britain and other peace-loving democracies for the purpose not only of restoring good will between nations but of creating an organization for the prevention of war. In chapter X on Disarmament he refers to mistakes made by the representatives of the British Admiralty at the Geneva Naval Conference in 1927, and "the misuse of the mathematical formula of comparison." This, he observes was "laid bare by Admiral Sir Herbert W. Richmond." Sir Herbert pointed out that the calculations of the experts should have been based upon the weakest instead of the strongest naval power—a proposition equally good for armies, and one which, if fairly applied after the War, would have saved the world from the menace of German re-armament. As Professor Shotwell puts it :—

"Germany had been disarmed with the understanding, if not with the definite commitment, in the Treaties of Peace (both that

signed by the United States as well as the Treaty of Versailles) that the other signatories would also voluntarily limit their armaments with due regard to what Germany was forced to do. The Washington Conference of 1921 should have built upon this base, already indicated for it if it had really in mind a programme of progressive reduction in the coming years. In devising the ratio without regard to this previous condition, which all had implicitly accepted as an implication of honour, the Powers represented at the Washington Conference set their courses towards maximum rather than minimum armaments."

It will be seen in a later chapter how even the limitations imposed on naval armaments by the Washington Treaties have broken down.

We come next to a far more ambitious project for the reduction and limitation of armaments, which had been originated and was indeed required by Article 8 of the Covenant of the League of Nations. That Article lays upon members of the League, as necessary to the maintenance of peace and to the welfare of the world, the duty of so reducing and limiting armaments that all the nations and Governments will feel that they are more secure and that their dangers, as well as their burdens, are being diminished.

Thus among the activities prescribed for the League of Nations by the Covenant, was the duty of effecting a general disarmament which would add to the wealth of all nations, by diminishing their unproductive expenditure and tax burdens, and at the same time create a sense of security which can never be present in a period of rising armaments. Disarmed Germany and powerless Austria, and a Russia wholly absorbed in the pursuit of Communism, provided a golden opportunity in the years following the War; but this opportunity was lost mainly because successive French governments were determined to exact impossible reparations, and to keep the Republic of

Germany in an abject and humiliated condition by maintaining against it an overwhelming preponderance of force. Consequently the League of Nations, instead of fulfilling its duty, procrastinated.

Article 8 of the Covenant of the League recognises that "the maintenance of peace requires the reduction of national armaments to the lowest point consistent with national safety and the enforcement by common action of international obligations." It is therefore the duty of the Council "taking account of the geographical situation and circumstances of each State" to formulate plans for reducing armaments, which plans are to be "subject to reconsideration and revision at least every ten years." In conformity with the same article all members of the the League "undertake to interchange full and frank information as to the scale of their armaments, their military, naval and air programmes, and the condition of such of their industries as are adaptable to warlike purposes."

Had there been a right spirit and an effective desire to co-operate, the work of preparation could easily have been disposed of within a year. In May 1920, the Council set up a permanent advisory committee of technical experts, and in September of the same year the first Assembly of the League appointed a temporary Arms Commission, to deal not only with the military and financial aspects of the case but with political, social and economic questions. This temporary (or temporizing) Commission prolonged its discussions for four years, and at last, in 1923, submitted a draft treaty of Mutual Assistance, which aimed at combining an international system of collective security with supplementary defensive agreements or regional pacts between particular nations. That project was abandoned in the following year in

favour of another plan, the Geneva Protocol of 1924, which sought to create a complete system of compulsory arbitration and of resistance by common action to aggression. Discussions in the League Council in 1925 showed that the Geneva Protocol was not generally acceptable, so the British Government suggested as an alternative that the Covenant should be supplemented by regional pacts. As a result the Locarno Treaties were negotiated and signed on October 16th, 1925. By these treaties Belgium, the eastern frontiers of France, and the western frontiers of Germany, were guaranteed against German or French invasion by the governments of Great Britain, Italy, France, Germany and Belgium. No provision was included to protect either Great Britain or Italy from French or German aggression. The treaties also provided for the peaceful settlement of disputes between France, Germany and Belgium; and the Republic of Germany thereupon (in 1926) joined the League. By this time, in the spring of 1926, a Preparatory Commission for a Disarmament Conference had actually got to work. It contrived to consume no less than four years on further preparation. This inexcusable waste of time proved fatal; for in 1930 came the economic blizzard which swept from America over Europe, reducing many countries to insolvency, and eventually leading to the downfall of the German Republic and of several other newly created democracies.

In January, 1931, the Council of the League of Nations decided to convoke the Disarmament Conference. This was eleven years after Article 8 of the Covenant had entered into force, and more than five years after the appointment of the Preparatory Commission. It may be added that the Governments which signed the Final Protocol of the Locarno Conference had declared their

firm conviction that the Locarno Treaty, by relaxing the moral tension between nations, and by strengthening peace and security in Europe, would "hasten effectively" the task of disarmament, to which they promised their sincere co-operation. Again on September 25th, 1928, when a number of States expressed their impatience at the delay in the so-called preparatory work, the Assembly declared that "the present conditions of security . . . would allow of the conclusion at the present time of a first General Convention for the Reduction and Limitation of Armaments."

It may also be recalled that the partially successful Naval Conferences at Washington, in 1921-2, and in London, 1930, had carried through a programme of naval limitations on short notice in three and a half and three months respectively.

Yet after all these years of preparation, various members of the League argued that the calling of the Disarmament Conference was "premature" and that more political preparation was necessary between the leading governments!

However, the Assembly of the League, on September 29th, 1931, adopted a resolution requesting the Council to ask the governments invited to the Conference to undertake for one year, from November 1st, 1931, to refrain from increasing their armaments. The Council communicated with the governments. As none of them refused, and as all the replies received were favourable, the Secretary-General of the League of Nations assumed that the proposed armaments truce was acceptable, and issued a circular letter to sixty-four States, including eight which were not members of the League, to attend a Conference for the Reduction and Limitation of Armaments, to meet on February 2nd, 1932. Only four

insignificant States failed to attend, and consequently, when the Conference met, it consisted of representatives from sixty States, including all the great Powers. The late Mr Arthur Henderson was appointed permanent President of the Conference, and M. Motta of Switzerland, its honorary President. A general commission was set up, which appointed five commissions, and the work continued until June 22nd, when President Hoover made proposals on behalf of the United States which would have reduced the armaments of the world by one-third, and would have gone far to abolish all aggressive instruments of war on land, such as tanks, chemical warfare, and large mobile guns, as well as all bombing 'planes, and all bombardment from the air. President Hoover also proposed large reductions of one-third to one-fourth in the tonnage of battleships, cruisers, destroyers, and submarines. It is enough to say that his proposals were received with varying degrees of favour, but that their acceptance was accompanied by such reservations that their practical adoption proved impossible. In the course of the discussion the German delegation declared that the German Government could not participate in the Conference unless its proceedings were conducted on the basis of equality between States. In the autumn negotiations took place between the Powers, which ended in a declaration by Britain, France, and Italy, that one of the guiding principles of the Conference "should be the grant to Germany and the other Powers disarmed by the Treaty of equality of rights in a system which would provide security for all nations." This proved satisfactory, and when the Conference met again in January, 1933, Germany resumed collaboration.

In March, 1933, the British Delegation presented a draft Disarmament Convention, and in the same month

occurred the German elections which put the Nazis and Herr Hitler into power. Various negotiations and discussions followed; but on October 14th the German delegates withdrew, and on November 22nd, the General Commission adjourned until January, 1934. On April 10th, Mr Arthur Henderson made a statement concluding:—"I believe that it is our solemn duty to bring this Conference to a conclusion that will be in accordance with our treaty obligations and our own previous decisions; for only through such a conclusion can we stop the drift toward a new race in armaments and put an end to the growing danger of war." But the Conference had already failed, and the work has not been resumed since its last meeting at the beginning of June, 1934. In August 1934, Herr Hitler succeeded to President Hindenburg and has been dictator of German policy ever since. From that time onwards rearmament has proceeded apace, and armaments have been piled on armaments by all the Powers.

In a table published a few years ago by the Royal Institute of International Affairs the total expenditure on armaments of the United States, Great Britain, Japan and most of the European States, was expressed in terms of sterling. After due allowance is made for the fact that certain services are included as belonging to national defence in some budgets and not in others, these figures should be roughly comparable, and sufficiently accurate, except perhaps in the case of Russia and one or two other countries whose currencies were almost worthless, and whose official statistics were suspect. At the risk of some repetition we may here recapitulate the results.

Taking the great Powers (from which Austria had been eliminated), British expenditure, according to this table had risen from 77 millions in 1913 to 116 millions sterling

in 1926. French expenditure on armaments had declined from 60 millions sterling in 1913 to 52 millions in 1926—but it is to be noted that a large extraordinary expenditure on fortifications was excluded. Meanwhile the expenditure of Japan had risen from 20 to 45 million, and of the United States from 98 to 118 millions sterling. Germany, where a small voluntary army replaced a great conscript army, had reduced its expenditure on armaments from 91 to 33 million sterling. The expenditure of Russia, according to this computation, declined from about 84 millions sterling in 1913 to about 72 millions sterling in 1926.

The budgets of the new European States created by the Versailles Treaty from portions of Russia, Austria Hungary, Germany and Bulgaria were in a state of confusion after the War; and for our purpose it will be sufficient to start a little later with the year 1924 in surveying the expenditure of the Minor European Powers.

The large military expenditure of France (including fortifications which were outside the ordinary budget), at a time when there was no visible enemy except a disarmed and powerless Germany, is all the more difficult to understand when we remember that French diplomacy had also encircled Germany, Hungary and Bulgaria by the Little Entente, which remained heavily armed, as appears from the following figures:—Poland's Budget of national defence rose from 651 million zlotys in 1924 to 866 million in 1929, declining to 763 millions in 1931. Besides this, there was a large expenditure on armed frontier guards, amounting to about 74 millions in 1925 and about 62 millions in 1931.

The Budget expenditure of Czecho-Slovakia on national defence was about 2,234 million koruna (usually known as Czechish Crowns) in 1924, and gradually

declined to 1,701 million crowns in 1930. At the same time there was an expenditure averaging about 260 million crowns in these years on the gendarmerie.

Roumania's expenditure on national defence in lei rose from 3,620 million lei in 1924 to 7,044 million lei in 1930. In the earlier years the expenditure on gendarmerie is unknown; but in 1930 there was an outlay of about 798 million lei on gendarmerie and of about 359 millions on frontier troops.

Yugoslavia's expenditure on national defence, including Army, Navy, Air Force and frontier guards, rose from 1,956 million dinars in 1924 to 2,413 millions in 1930. Besides that, the gendarmerie cost round about 370 millions annually in these years.

To these figures may be added the armament budgets of some of the other minor Powers, converted into sterling, for the years 1926 and 1930. Between these years the expenditure of Denmark stood at about two and a half millions, and of Finland at about three millions. Dutch expenditure rose from six to six and a half millions, while that of Spain remained at about thirty-eight millions. That of Sweden declined from eight to seven and a quarter millions, and Switzerland maintained an expenditure of about three and a half millions; the Armament expenditure of Greece declined from six to four millions.

Generally speaking it may be said that the first five years after the War were marked by widespread insolvency, by the depreciation of numerous paper currencies and by wild fluctuations in prices. But there began also a remarkable recovery of international trade, thanks partly to the arrest of armaments and partly to the comparative moderation of tariffs in Europe. Unfortunately the French nation could not rid itself of the fear of Germany, and persisted in the policy of keeping Germany under

instead of attaining a real security by friendly concessions and timely amendments of the Peace Treaty that would have ensured the stability of the only free democratic government which Germany has ever enjoyed. They preferred to maintain their army at great expense and began fortifying their frontiers against a disarmed enemy.

The second half of the post-War decade (1925-6 to 1931) may now be summarised. A year ago the excellent intelligence department of the League of Nations Union prepared for a member of its economic committee some comparative statistics of the armaments expenditure of the Great Powers, which it will be convenient to use for the years 1926 to 1931.

According to this set of figures, Great Britain was spending 116 millions sterling in 1926 on Army, Navy and Air Force, and in 1931 she was spending only 92 millions, though it should be remarked that gold prices had fallen greatly and that the £ sterling had a much greater purchasing power in 1931 than in 1926. The expenditure of the United States, which, as we have seen, was entitled by treaty to put its Fleet on a parity with that of Great Britain, had risen from 558 million dollars in 1926, to 702 millions in 1931; and as the purchasing power of the dollar had risen like that of the £ the real increase was much larger than the nominal increase in the American expenditure on armaments. Concerning Russian statistics we have already explained their unreliability and the uncertainty as to the value of the rouble, but there is no doubt that in the second half of the post-War decade the Soviet Government greatly increased its expenditure on armaments. Soviet statistics give us an expenditure of 691 million roubles in 1926, and of 1,404 million roubles in 1931. French expenditure on armaments, excluding the extraordinary expenditure on

fortification, rose from 6,478 million francs in 1926, to over 12,022 million francs in 1931.

The armaments expenditure of Italy in the same period started at 5,329 million lire in 1926, and then declined, then rose again. In 1931 the figure was 5,208 million lire. It should be added that the purchasing power of the franc and the lira were increasing like the £ and the dollar, owing to the fall in gold prices, and therefore their real expenditure was increasing more, or diminishing less, than their nominal expenditure. Japanese expenditure in 1926 was affected by the Great Earthquake and was only 434 million yen; it rose to 517 million yen in 1928, but declined to 407 million yen in 1931, the purchasing power of the yen having risen.

Meanwhile, according to the same authority, German expenditures on armaments were as follows :—

1927	713	million reichsmarks
1928	769	„ „
1929	691	„ „
1930	681	„ „
1931	617	„ „

It is hardly surprising in face of these figures* and facts that the German delegates at the Disarmament Conference asked for equality of status. Germany was encircled by fully armed countries which were united in opposition to any modification in her favour of the provisions of the Versailles Treaty, and the psychology of the German nation was rapidly changing in favour of a leader who promised to restore it to the status of a great Power.

*The German wholesale price index number declined from 140 in 1925-6 to 121 in 1930-1.

CHAPTER V

THE ARMAMENTS RACE 1934-37

FROM 1933 when the Nazi Party of Herr Hitler obtained power in Germany, or from 1934 when the Disarmament Conference ended in failure, may be dated the great and unparalleled expansion of armaments which in January, 1937, when this book is being completed, is terrifying the peoples of Europe and diverting a vast proportion of their energies from productive to unproductive and destructive purposes. Fear, distrust, and the jealous rivalries of economic nationalism, of militarism and of aggressive imperialism are among the psychological factors that have produced the crisis, and are bound unless speedily checked to end in some major catastrophe. In some countries the working classes are seething with discontent which a severe system of repression, carried out by spies and a numerous and strongly armed police, cannot altogether smother. In at least one of them the vast expenditure on armaments, while reducing real wages, and diminishing the comforts and necessities of life, has enlarged employment, exhibiting effects similar to those observed in time of war. The budgets of all the great Powers have been unbalanced by this expenditure. It is forcing governments to add to their debts, and in several cases it has caused further depreciations of the currency. In Germany the cost of rearmament is being borne partly by taxpayers, partly by consumers, and partly by additions to the Floating Debt or by internal loans. In France a second devaluation has given only temporary relief to the Treasury, which is now faced with a deficit estimated

for this year at about 350,000,000 sterling. In Italy a large deficit on the ordinary budget has been acknowledged; but there is a much larger extraordinary budget for Abyssinia of which neither the size nor the details have been published. A devaluation of over 40 per cent. has eased the Italian Treasury at the expense of the people, and taxation is believed to have reached its limit. In Japan the demands of the Army and Navy and the cost of policing Manchuria have created not only a budget crisis but a political crisis in which the forces of business and of democracy are arrayed in resistance to the encroachments of the military and naval chiefs. The rising deficit has caused inflation, and the Japanese Government is now imitating the example of Germany by adopting measures of restriction to support the exchange value of the yen. The Russian budget is wrapped in an almost impenetrable fog; but on a later page we shall quote recent statistics and statements issued by the Soviet authorities regarding the enormous expansion of preparations for war. In the United States the additions to expenditure on armaments, though very large, are small in comparison to the social expenditure on recovery. They have contributed only an insignificant fraction of the additions that have been made to debt since the Wall Street collapse of 1929 and the industrial depression that followed. Since the spring of 1936 the cost of British armaments has risen so fast that in February 1937 Mr Neville Chamberlain laid before the House of Commons a five year programme of 1,500 millions sterling, of which 400 was to be raised by loans. The expenditure had already produced an armaments boom.

We shall endeavour in the following pages to provide a survey, or bird's-eye view, of the growth of armaments all over the world, but especially in Europe, since 1933.

For this we are largely indebted to the *Armaments Year Book* issued by the Secretariat of the League of Nations, which has been brought up to date and revised annually during the last twelve years, and contains monographs on the armaments of sixty-four countries. In spite of the lack of uniformity in military organisations, and the fluctuating values of the currencies, the information and the statistics furnished by this big miscellany of over eleven hundred pages help us to present a picture of the state of the world at the end of 1936, and, as it were, to weigh and measure the burden of armaments.

Those who wish to enlarge their knowledge of the military systems of the world, and of the state of armaments should study carefully the preface to the *Armaments Year Book*, which states that the present edition (12th year) has been revised and as far as possible brought up to date from official publications such as parliamentary debates, collections of laws, official journals, military publications, statistical publications, etc. Most of the monographs give particulars of the land and sea frontiers of the countries in question, military, naval and air expenditure, military organizations, and vessels of the various navies. It is to be regretted that the information given in the *Armaments Year Book* for 1935 on raw materials and other products affecting national defence has been omitted.

The current edition of the *Armaments Year Book* is dated Geneva, August 1936. In a good many cases its information and statistics have been supplemented from the 1937 edition of Whitaker's *Almanack*, whose facts and figures for the various nations and governments have in many cases been verified by British consuls and vice-consuls. We have received valuable assistance from Chatham House, and from the League of Nations

Union. A good deal of additional information has been obtained from the newspapers.

Unfortunately the real armaments expenditure of Germany, Italy and Russia during the last two or three years is shrouded in mystery, because the official statistics of expenditure on armaments are unreliable or unavailable. If the budgets of these three countries gave full and accurate information of their expenditure like that which is provided by the budgets of Great Britain, France, the United States, and Japan, the distrust that prevails among their neighbours might be diminished, and the exaggerated statements which are afloat could be checked. A comparatively small secret armament is more dangerous and more likely to stimulate competition in armaments, more likely also to provoke war, than a larger expenditure which is openly avowed and officially published.

In modern history no year has seen such a tremendous increase in the burden of armaments, or such an appalling diversion of the productive energies of civilised mankind into wasteful and potentially destructive channels, as the year 1936; but even that year will be put into the shade by 1937, unless the hatreds, rivalries, fears and territorial ambitions of the Great Powers, which supply fuel to the armament industry, can somehow be mitigated and appeased. Extensions of conscription, new loans for war preparations of all kinds, new tools and machinery for the building of more and more bombing aeroplanes, new and enlarged laboratories for the preparation of poisonous gases, and other devilish horrors of modern warfare, new monster battleships, new cruisers and submarines, will combine to augment the cost of armies, navies, and air forces throughout the world. Acceleration of armaments by all the Great Powers, and many of the smaller ones, mark the commencement of the New

Year. All the machinery of destruction is in full blast, regardless of economic consequences ; and practically every government which has joined in this frantic competition declares that it is making its preparations solely for defensive purposes in order to maintain peace and goodwill among nations and to restrain the aggressive intentions of its neighbours.

Voluntary service, which has always been one of the hall-marks of that personal freedom which Englishmen and Americans prize above everything else, was restored after the Great War in Great Britain and the United States. By the provisions of the peace it was also imposed upon Germany and the other defeated Powers ; but unfortunately for the peace and prosperity of Europe the Government of France maintained conscription, and went on spending very large sums upon armaments, as if Germany had not been disarmed, and as if the Austrian Empire had not been dismembered. Italy also maintained compulsory service, and Soviet Russia (after repudiating all the vast loans borrowed from France and Great Britain), soon began to develop an appetite for warlike preparations, which made her a new danger to European peace. With the restoration, under Herr Hitler, of compulsory service in Germany, all hope of freedom for continental Europe from this comparatively new form of personal slavery has vanished for the time being. Moreover, all attempts and proposals to restrict the use of bombs in aerial warfare have so far failed, and even the prohibition of poisonous gases, to which Italy, as a member of the League, assented, was violated when Mussolini's army, in defiance of the Covenant, invaded Abyssinia. Lastly, as we shall see in a later chapter, the treaties which restricted naval expenditure

came to an end on the last day of December 1936 ; and amid the general rejoicings of Admiralties and ship-builders, all the brakes on naval competition have been removed.

CHAPTER VI

THE REARMAMENT CRISIS—ARMAMENTS EXPENDITURE OF GREAT BRITAIN AND THE BRITISH EMPIRE, 1933-1936.

THE British Budget of 1936, with the White Papers explaining rearmament and its cost, marked a complete change in the policy of the Coalition Government, not only as compared with Mr Neville Chamberlain's previous budgets in all of which he had insisted on balancing expenditure with revenue, but also as compared with the moderate addition to armaments, which Mr Baldwin forecast during the election campaign in the autumn of 1935. The change indeed amounted to a reversal of policy and was mercilessly exposed in Parliament by Mr Winston Churchill during an armaments debate (November 10, 1936), which had been initiated by the Opposition Liberals in an amendment to the King's speech. Mr Churchill's theme, urged with vehement rhetoric, was that the warlike preparations of Germany from the beginning of 1933 when Herr Hitler came into power, and especially the development of the German Air Force, had been ignored by our Government which "clung to the policy of one-sided disarmament." After Mr Baldwin succeeded Mr Ramsay MacDonald as Prime Minister in July 1935, he began to make serious statements about the need for rearmament. Nevertheless in a speech to the Peace Society on October 28th, 1935 he said:—"I give you my word there will be no great armaments," and in another speech on October 31st, 1935, he added:—"there has not been, there is not, and there will not be, any question of huge armaments or materially increased forces."

The Prime Minister's reply to Mr Churchill's taunts took the form of the confession that a Democracy is always two years behind a Dictator. At any rate this was true in the case of Great Britain and Germany. Then turning from his notes he blurted out :—

“ I put before the whole House my own views with an appalling frankness. From 1933 I and my friends were all very worried about what was happening in Europe. You will remember at that time that the Disarmament Conference was sitting in Geneva. You will remember at that time there was probably a stronger pacifist feeling running through this country than at any time since the War. I am speaking of 1933 and 1934. You will remember the election at Fulham in the autumn of 1933 when a seat which the National Government held was lost by about 7,000 votes on no issue but the pacifist. You will remember perhaps that the National Government candidate, who made a most guarded reference to the question of defence, was mobbed for it.”

That being the feeling in the country Mr Baldwin saw no hope that at a General Election the voters would give the Government a mandate for rearmament. Had he told them that Germany was re-arming and that we must re-arm he would have lost the election. To win the election it was necessary to wait until in 1935 the country began to realise its peril. Thus, so ran the argument, he was able to engineer a general election in the autumn of 1935 which not only returned the Government to power with a large majority, but gave it a mandate for rearmament. He did not, however, mention that the electoral victory was won mainly because the people, and the then powerful League of Nations Union, were delighted with the strong attitude taken up by Sir Samuel Hoare as Foreign Secretary at Geneva, which made the British Government appear in the eyes of the nation and of the world as champion of Abyssinia and Collective Security against Italian aggression. When, after the

election, Sir Samuel Hoare receded from his position, and in conjunction with M. Laval proposed to offer a large slice of Abyssinia to Mussolini, there was such an outburst of national indignation that Mr Baldwin had to propitiate public sentiment by dismissing his trusted colleague and appointing Mr Eden in his place. It was only after the failure of the League to prevent the Italian conquest of Abyssinia that a wave of realism swept over the country and led it to acquiesce in a rearmament programme enormously greater and more costly than that which Mr Baldwin had adumbrated during the General Election campaign. But it was no longer arming for Collective Security or for taking part in a League of Nations war on the continent of Europe. A change had come over public opinion. Collective Security, from being a reality and the 'mainstay' of our foreign policy, had receded into the background. Of those who had been its enthusiastic supporters some clung to it as an ideal, others rejected it as a phantasm. The rearmament programme was now justified as a necessary sacrifice for the defence of Great Britain and the Empire against possible German Italian or Japanese aggression. Later on the financial sacrifices it involved were made more palatable to the majority of the people by the policy of non-intervention and by assurances that the Government had no intention whatever of taking part in a war between communism and fascism. Dean Inge was probably right in saying that nine-tenths of the British people wish to live on friendly terms with both the French and the Germans and are utterly opposed to fighting in a continental war on either side.

No one who frequented Parliament or public meetings, or heard the sermons preached in Church or Chapel, no one who read the correspondence in provincial newspapers

and in the two or three London newspapers which do not severely censor the views of their readers, can doubt that throughout the year 1936 the utmost anxiety and confusion prevailed in the minds of the British public, not only as to what was, but as to what ought to be, the foreign, colonial and fiscal policy of Great Britain and the Empire—more especially in relation to armaments and defence. Amid all the dissensions and changes of opinion, it may be asserted with confidence that a desire for peace and a detestation of war as the greatest of all human crimes and follies remained as strong and as prevalent at the end of the year as at the beginning. In the minds of a vast majority of the people, aggressive Imperialism had no place. There were, indeed, small groups of Communists and Fascists, which made a noise out of all proportion to their real strength, and attracted undeserved attention in the sensational press. There was a group of Jingo politicians and Service men, encouraged by the armament interests and led by Mr Churchill, the most eloquent of panic-mongers. There was a much larger group of economic nationalists, supported by protected manufacturers and subsidy hunters, who obstructed all proposals which might lead to a reduction of tariff barriers and the promotion of commercial friendship with foreign nations. The strength of this group made it difficult for the British Government to take the initiative in removing the grievances that were beginning to find expression not only in Germany and Italy, but elsewhere, against the British Empire's preferential tariffs which discriminate against foreign traders and make it more difficult for them to obtain supplies of tropical raw materials.

Perhaps the change that came over public opinion during the year may be described as a growing feeling that the main purpose of rearmament should be the

defence of Great Britain and the Empire, and a growing opposition to quixotic projects which might engage us in wars on the Continent of Europe for the support of "collective security" in conformity with the new hypothesis that peace is indivisible and that consequently Great Britain must take part against the aggressor* whenever and wherever war might break out. At the beginning of the year 1936 it had still seemed possible that the League of Nations, despite the absence of three great Powers and the presence of Italy, might be strong enough and unanimous enough to maintain peace throughout the world, or at least, by a concerted system of defensive armaments, to protect all its members from aggression. But the successful defiance of the League by Italy, following that by Japan, went far to shake confidence in its military value. This melancholy conclusion was confirmed by the discovery that the British self-governing Dominions—to say nothing of India—were obstinately opposed to participation in another war on the Continent of Europe, or in regional pacts for the defence of foreign countries. General Smuts' concise slogan:—"Friendship with all, alliance with none"—represented fairly enough the comment of British overseas Governments on Mr Duff-Cooper's declaration in the summer of 1936†:—"Your frontier is our frontier." That this statement and the corollary of preparing an expeditionary force to carry it out were not acceptable to public opinion is indicated by the speeches of Ministers during the armaments debate of November, 1936. Thus Sir Thomas Inskip, the Minister who was appointed to co-ordinate the War Services, went out of his way to dispute the fashionable

*The definition of "Aggressor" is still one of the most difficult and disputed problems of International Law.

†After a dinner in Paris. Possibly Mr Duff Cooper was thinking of Mr Baldwin's previous and equally startling statement:—"Our frontier is now the Rhine".

fallacy that the menace of invasion by air has destroyed our historic security as an island. "If anyone," he said, "will think for a moment what the state of this country would be if our frontiers were in Europe instead of on the other side of the dividing seas, I think he will see that a large proportion of the advantages of an island are still secured to us." There is of course the new danger of attack by air ; and defence against this is the main purpose of the costly expansion of the Air Force and of anti-aircraft equipment.

Undoubtedly the Franco-Soviet Pact has made anything in the nature of a military entente with France even more unpopular than it would otherwise have been, and it has also contributed to a growing feeling among the small free states on the western and northern frontiers of Germany that neutrality is their safest policy. The immunity of Switzerland, Holland and the Scandinavian States from the horrors of the Great War helps to explain why they, and also Belgium, since the Abyssinian fiasco, have come to regard regional pacts and the risks of a war for collective security as more dangerous to themselves than a policy of pure neutrality, whether armed, as in the case of Holland, or practically unarmed as in the case Denmark and Luxemburg.

One other consideration has probably played its part in the new formation of opinion, and that is the strong pacifist movement not confined merely to members of the Christian Churches, which has taken definite shape in the refusal to take any part in any war. This means that tens of thousands of young men are likely to be conscientious objectors in the next war ; and unless that war is clearly a case of national defence, or of protecting the Empire from aggression, it is doubtful whether any

British Government could count upon an adequate amount of national support.

Mr Churchill's elaborate attack upon the Government during the armaments debate failed to convince the House of Commons, which enjoys, but is seldom swayed by, rhetoric. Perhaps the repetition of his grossly misleading figures concerning German rearmament and his reference to the size of Mussolini's mythical army of 8 millions diminished the force of his argument ; but the fatal weakness of his case consisted in ignoring the financial and economic straits to which Germany and Italy—not to mention France—have been reduced by their excessive expenditure on armaments and war. Nor did his policy become more attractive when it was found that he wanted our Government to imitate the methods of foreign dictatorships by the revival of D.O.R.A. or some similar measure, under which it would take powers to conscript labour and make capital wholly subservient to the production of armaments on a still more colossal scale. The replies of the Government's spokesmen to Mr Churchill's demands deserve to be summarised, because they have a general bearing on the economic aspects of the rearmament crisis.

Resisting the proposal for "an executive Ministry of Supply with compulsory powers," Sir Thomas Inskip (in the debate on the Address, November 10th, 1936) said that "to attempt to arrest the ordinary industries of the country in order to transfer the key or skilled men for munition production" would at this stage "be wrong from every point of view." He added :—

"The House will realise that the financial strain which is being placed upon this country is a stupendous one. If we were to interrupt and break down the process of the industry of peace time, we should run the risk of destroying the financial fabric

of the nation. It would be difficult to stop when once you had begun to turn this country into one vast munitions-producing camp."

Therefore, he argued, the right course was "to attempt as far as possible to satisfy the needs of the country without stopping that export trade upon which the financial position of this country depends. And remember that we depend upon the forces of finance for the successful fighting of a war as much as upon the production of munitions." They need not listen to the panic-mongers who talked about a "knock-out blow" on the supposition that "our Air Force and our Navy are going to sit passively and helplessly by and see Great Britain enduring the rigours of a siege or generally being bombed out of existence." In spite of the aeroplane we still enjoyed "nearly all the military advantages of an island," and when all had been said we had "a long start over anyone ill-advised enough to meddle with our freedom."

Mr Churchill's reply to Sir Thomas Inskip was answered by Mr Baldwin. The Prime Minister dwelt upon Mr Churchill's exaggerations and bogies. He did not share Mr Churchill's belief in the efficiency of dictatorships or the desirability of compulsion. Experience shows that more is to be gained by relying on willing co-operation than by adopting dictatorial methods. The exercise of compulsory powers inevitably involves a most serious dislocation of industry, which may be out of all proportion to the benefits obtained, and would certainly reduce our effective financial strength; "and that financial strength, so carefully nursed and looked after through all these years, is one of the strongest weapons we have if war ever comes upon us." He recognised that the rearmament programme was "extensive and expensive;" its size and cost made heavy

demands on British industry and resources. They had chosen the method of voluntary co-operation between all concerned, and they had declined to adopt the other method of asking Parliament to confer compulsory powers on the Government :—

“I do want the House to realise how extensive those powers if taken would have to be. The powers of the Ministry of Munitions in the War covered pages and pages of D.O.R.A. Regulations. The scope of the powers must extend to industry as a whole. You cannot do it in fragments. It *must* extend to industry as a whole. What I fear, in fact what I feel confident of, is that if that were done now, it would create such uncertainty and uneasiness throughout the whole trade of the country that it would check the development of enterprise and stop the trade expansion ; and I hardly dare to reckon how it might react on finance.”

Mr Baldwin denied the Churchill theory that dictatorial methods are necessarily more effective than the co-ordination of free effort, or that Ministers who are never criticised and never have to explain themselves escape all trouble. On the contrary, Dictators are probably struggling with handicaps and confusions which are no less serious because they are withdrawn from the public gaze.

This is a theme that might well have been developed ; for the economic and financial difficulties and the discontents of the people in the three great dictatorships of Europe are growing under the strain of excessive militarism and excessive expenditure on armaments. At that time—in the autumn of 1936—the only remedy or means of repressing internal trouble which the three great Dictators—Stalin, Hitler and Mussolini—could apply was more and more coercion.

We may turn now to the expenditure of Great Britain on the Defence Services since the Disarmament Conference

At the beginning of January, 1937, British income tax payers received a demand note intimating what their contributions would be to the Revenue during the year, and on the back of the form was a table showing the estimated national expenditure for the financial year ending March 31st, 1937. From this it appeared that the total ordinary expenditure, excluding Post Office and Road Fund, was estimated by the Chancellor of the Exchequer at £797,897,000. Of this sum, £160,083,000 was for the Defence Services. A further £224,000,000 was assigned to the interest on and management of the National Debt, nine-tenths of this being due to the Great War. Another sum of £41,681,000 was for War Pensions. This, however, was not the whole of the expenditure on War and Armaments, for at the foot of the table there was added another £20,000,000 "for anticipated further expenditure on Defence." If then there are no supplementary estimates for armaments or for war before March 31st, and if the estimates are realised, it will be found that out of a total ordinary expenditure of £797,897,000 not less than £445,764,000 will have been spent in paying for past wars and for present preparations for war. This proportion (56 per cent.) is likely to show still further increases, unless indeed recourse is had to borrowing.

The net expenditure on the Defence Services in recent years, as shown in the Financial Statement issued each year by the Chancellor of the Exchequer, has been as follows :—

	Navy £ millions	Army £ millions	Air Force £ millions
1932-33	.. 50.0	38.5	17.1
1933-34	.. 53.5	35.9	16.8
1934-35	.. 56.6	37.6	17.6
1935-36	.. 64.8	39.7	27.5
1936-37 (est.)	69.9	49.3	39.0

To the 1936-37 estimates must be added the further £20 millions already referred to, making a total of about £180,000,000, compared with £105,000,000 in 1932-33. In 1913-14, the corresponding total was £77,000,000—and that at a time when there was imminent menace of war, and the German Fleet sought to rival our own. The Navy Estimates for 1936-37, including a supplementary estimate of £10 millions voted in May, 1936, stood at £80 millions, which alone exceeded our total expenditure on armaments on the eve of the Great War. The total estimates, and the estimates for each of the three Services, are entirely unprecedented in times of peace. Indeed, the cost of Defence alone now equals the total National Expenditure in 1911-12, while the charge for the National Debt is ten times more than it was then. The expenditure on armaments in 1937-8 may approach 300 millions!

THE ARMAMENTS OF BRITISH INDIA, AND THE SELF-GOVERNING DOMINIONS

While the main purpose of the British Army, regulars and territorials, and of the Air Force, is the defence of Great Britain and Ireland, the British Admiralty has to take into consideration the defence not only of the nation at home, and of its supplies of food and raw material in case of war, but also that of the British Empire and Commonwealth of Nations, scattered all over the globe, which covers about a quarter of the whole surface of the earth.

For the defence of the Crown Colonies the British taxpayer at home is mainly responsible; but British India and the self-governing Dominions look after their own defence and pay for it in so far as concerns military and air forces, though their expenditure on naval defence

is quite small. A brief survey will show the present situation.

THE INDIAN EMPIRE

The total area of British India, including the Native States, is 1,809,000 square miles, and the population has risen to over 350 millions, which is about three-fourths of the total population of Great Britain and the British Empire. At the present time the army in India consists of about 60,000 British and 150,000 Indian regular troops. In addition there are an auxiliary Force of 33,000 and an Indian Territorial Force of 19,000, an Indian Army Reserve of 42,500, and Indian State Forces amounting to 44,000. The net military expenditure, including a small outlay on the Navy, has risen from about 20 millions sterling before the Great War to over 34 millions (estimated) in 1936-7. In rupees the estimates for 1935-6 amounted to 356 millions for the Army, 19½ millions for the Air Force, 6 millions for marine, and 36 millions for military engineers.

THE DOMINION OF CANADA

The area of Canada is about 3,694,000 square miles and the population is now about 11 millions. The defence of Canada is entrusted mainly to the Canadian Militia, consisting of an active militia and of a reserve—the latter consisting of all able-bodied citizens. At the end of 1935 the permanent active militia, or standing army, consisted of 3,760 officers and men, and the non-permanent active militia amounted nominally to 135,000 men. The real military strength of Canada was shown in the Great War, when over 418,000 Canadians were sent overseas. Of these contingents over 80 per cent. were enlisted voluntarily. Canada's contribution to the

War was estimated at 2,000,000,000 dollars. Besides the Army, Canada maintains a small Navy, consisting of four destroyers and a minesweeper, and an air force which possess 185 aircraft. In January 1937 the Canadian budget provided for an addition of nearly three millions sterling to the Defence Estimates which were thereby raised to a total of seven millions, mainly for an expansion of the Air Force.

THE COMMONWEALTH OF AUSTRALIA

Australia has an area of 2,974,000 square miles, and a population estimated at about 6,800,000. Previous to 1929, Australia based its citizen army on universal compulsory training; but since 1929, enlistment in the militia forces has been on a voluntary basis. The total effectives amounted in 1935 to over 34,000. There is also an Air Force, possessing 32 aircraft, and a Navy consisting of four modern cruisers, and a number of smaller vessels, totalling 61,000 tons, and manned by over 4,000 officers and men. Australia's budgetary expenditure on national defence rose from about 3 millions sterling in 1932-3 to £8,538,000 in 1934-5, and declined (estimates) to £5,568,000 in 1935-6. In the *Economist* of January 2nd, 1937, Australia's total defence expenditure for the current year is estimated at £8,809,000, which represents nearly one fifth of the whole Federal Budget. It should be remembered that in Australia as well as in Canada, New Zealand, and South Africa, there is a large reserve of seasoned soldiers who took part in the Great War, and would be available to resist invasion. It may be added that the total Federal expenditure (apart from loans), of Australia, was the same in 1934-5 as in 1929-30, namely 78 millions, though the Australian pound has gone off

gold, and was fixed at a rate below sterling. Wholesale prices from 1930 to 1936 remained remarkably stable.

NEW ZEALAND

In New Zealand, as in Australia, military service is voluntary, conscription for the territorial army having been suspended since 1930. There is a small permanent army of about 700 officers and men, and a territorial force estimated at about 9,000. New Zealand's Navy consists of two cruisers and a training ship. The expenditure on national defence in 1935-6 was £378,000 on the Army, £160,000 on the Air Force, and £592,000 on the Navy and Naval Defence. As the total expenditure of New Zealand was nearly £26,000,000 in 1936, the proportion of military and naval expenditure to the whole budget was small ; but it must be remembered that New Zealand, like Australia, is saddled with a huge debt largely due to the War, which involves heavy annual payments for interest. The population of New Zealand is estimated at 1,573,000. The total area of New Zealand and the smaller islands attached to it is 105,000 square miles.

UNION OF SOUTH AFRICA

The Union of South Africa, consisting of four self-governing provinces, has an area of over 472,000 square miles, and a total population of over 9½ millions, of whom, however, only about 2 millions are Europeans. The Union administers under a Mandate the large Protectorate of South-West Africa, which was taken from the Germans after the War. This Protectorate has an area of 322,000 square miles, and a total population of 357,000, of whom only 30,000 are Europeans. The armed forces of the Union of South Africa are based on the militia system

which involves general liability to service. The standing army of regulars consists of about 1,000 officers and men ; there is also a trained citizen force of about 9,000, and the reservists number 126,000. The Navy is insignificant. The estimated budget expenditure on national defence in 1935-6, was £1,750,000, which showed a big rise on 1932-3, when it was only £745,000. But there had been a rise in wholesale prices of over 10 per cent. during the period. The total expenditure of the Union has risen greatly in the last six years, but thanks to the prosperity of the gold mines, the revenue has risen still more, and has enabled the government to reduce taxation. In 1931-2 the revenue of the Union was £27,740,000, and in 1934-5 it was £38,730,000.

It will be seen from the above that British India and the self-governing Dominions are well capable of military defence ; but they are almost wholly dependent upon Great Britain for any naval assistance that might be required in case of war. For the defence of the Empire there are numerous fortified posts and coaling stations, such as Gibraltar and Singapore, on which many millions have been spent.

CHAPTER VII

GERMANY'S REARMAMENT AND MR CHURCHILL'S STATISTICS

A DISTINGUISHED British diplomatist of great experience, Lord Hardinge of Penshurst, addressing a Conservative meeting at Tunbridge Wells on January 2nd, 1937, described Germany "as the principal danger spot in Europe." He saw there a situation resembling a state of siege, in which the whole population is being militarised and is suffering from a shortage of food. He added :—

"It must be admitted that we have not been entirely blameless, since we have lost several opportunities of coming to terms with Germany during the last two years. A further aggravation of the international situation is of course the Franco-Soviet Pact which is an effort to encircle Germany. The only hope of preserving peace is to establish really friendly relations between the great Western Powers."

But Lord Hardinge saw no hope of successful negotiations with Germany until it was made clear that any material economic or financial concessions to Germany would not be utilised for military purposes.

If Lord Hardinge's diagnosis be accepted, a correct knowledge of German rearmament, and an insight into the psychology of a nation which is making such sacrifices for the purpose of strengthening its military power, are obviously important. If here and in previous pages we have made some modest contribution to the subject, this book will not have been published in vain.

The area of Germany was reduced by the Treaty of Versailles from 208,000 square miles in 1914 to 182,200

square miles at the present day through the loss of Alsace-Lorraine to France and portions of Posen and West Prussia and Upper Silesia to Poland, of North Schleswig to Denmark, of Malmédy to Belgium, and of Memel to Lithuania. Danzig was made into a Free State, and Germany was deprived of all its colonies, including over a million square miles in Africa, 96,000 square miles in the Pacific, and nearly 3,000 square miles in Asia. At the last census of 1933 the population of Germany was 66 millions, including about half a million Jews.

When we come to the critical and all important problem of German rearmament and of German armament expenditure (for neither of which any official details are available for the last two years) it is best to proceed from the known to the unknowable, or, to put it in another way, from the real facts and figures to Mr Winston Churchill's imaginative statistics.

By Article 160 of the Versailles Treaty the German army was limited to 100,000 men—seven divisions of infantry and three of cavalry; and by Article 181 the German navy was limited to six small “pocket” battleships, six light cruisers, and twenty-four destroyers and torpedo boats. No submarines and no military or naval air force were permitted. The professed intention was to bring about a general disarmament which would restore something like equality between all the great Powers on a much reduced scale. Germany's main grievance against France and Russia and the Little Entente was that this admirable scheme of the League of Nations was not carried out; consequently a disarmed Germany was surrounded by a circle of heavily armed countries. This was the situation when the Disarmament Conference was convoked. Eventually, as we have seen (on October 14th, 1933) the German Government withdrew from the

Disarmament Conference and from the League of Nations. An increase of the regular army and navy then began and also the construction of an air fleet. In March 1935 Germany openly threw over all the armament limitations of the Versailles Treaty and introduced conscription, stating that a conscript army of thirty-six divisions would be created. A naval agreement was made with Great Britain by which it was arranged that the Germany navy might be raised to a ratio of one-third that of the British Navy. In 1936 the term of compulsory service for the German army was lengthened from one to two years.

Turning from Germany rearmament to finance, we may recall the desperate conditions that followed the War. The paper mark became valueless and all public debts were thereby automatically cancelled, with ruinous consequences for most of the middle and upper classes. A new currency was established in 1923, the budget was balanced, and small compensations were paid to holders of public loans. But since 1927 all German budgets have closed with deficits, and consequently a new internal debt has grown up, partly in floating bills of which the amount is unknown, and partly in funded loans. The budget was relieved of reparation payments by their suspension on July 1st, 1931, on the initiative of President Hoover; but at the same time a banking crisis and withdrawal of foreign credits made it impossible for the Reichbank to deliver gold or exchange for payment of foreign debt. In order to maintain foreign trade a "standstill agreement" was arranged in February, 1932, with foreign creditors, which has been continued; and at the same time a debt census was published showing that public and private indebtedness to foreign creditors amounted to over 20,000 million marks, half of which was short term and half long term. This included about 3,000 millions for

the Dawes and Young loans, and over 1,000 million for State and Municipal Debts. In June, 1932 the German Government defaulted on the whole of its foreign long-term debt, but compounded with the bond holders, while maintaining full interest on the Dawes and Young Loans.

Meanwhile, by a series of restrictions and regulations, the gold value of the Reichsmark, now at about 12 to the £ sterling, has been maintained for purposes of foreign exchange, while the registered Reichsmark, which foreigners can obtain for use in Germany, has been worth only from 21 to 24 marks to the £. If the exchange were free, it is probable that the gold Reichsmark would have to be devalued to a rate of about 20 marks to the £ sterling, which was about its pre-War parity, when both Germany and Great Britain maintained the full Gold Standard. It may be mentioned that in 1927 Germany had so far recovered that the number of unemployed fell to 250,000; but during the credit crisis and economic blizzard in 1932, it rose above six millions. Between September 1935 and September 1936, the numbers of unemployed in Germany declined from 1,714,000, to 1,035,000, owing, it is supposed, partly to the armaments scheme, partly to conscription, and partly to the labour camps.

At the same time there has been a large increase of revenue. But against the improvements in employment and revenue must be set shortages, constantly recurring, of butter, eggs, meat, etc. Moreover the difficulties of obtaining adequate supplies of raw materials from abroad have induced the Government to encourage by subventions the manufacture of inferior substitutes, and to promote exports by costly subsidies.

The last budget estimates published by the German Government were those for 1934-5, under which revenue

and expenditure balanced at 6,458 million Reichsmarks. According to *Whitaker's Almanack* the two following budgets "were sanctioned by the German Cabinet in regular form ; but the totals and the details were kept a secret."

A table prepared for us by the information department of Chatham House shows that the total expenditure of Germany on armaments between 1924-5 and 1932-3 varied from 458 to 757 million Reichsmarks. In the last year of the decade it stood at 629 millions ; in the following year it rose to 671 millions ; and in the last year for which official figures are available (1934-5) Germany's total expenditure on armaments had risen to 894 millions, which, converted into dollars at the official rate of exchange, amounts to about 355 million dollars. With this may be compared (also a Chatham House estimate) the French expenditure on armaments of 738 million dollars in 1934, and 701 million dollars in 1935. Thus, until two years ago the French expenditure was double the German expenditure, even after the German expenditure had more than doubled. In the French budget estimates for 1937, which were published in November, 1936, the total armaments expenditure was equivalent to 618 million dollars to be paid for by loans on the extraordinary budget, and 474 million dollars under the ordinary budget, making a total of 1,092 million dollars. The real expenditure of Russia is, in our opinion, unascertainable, though we have given the Russian figures. It may be added here as a curiosity that the Chatham House experts, accepting the official Russian rate of exchange, have calculated that the Russian expenditure on armaments in 1935 was equal to about 7,117 million dollars, or ten times that of France !

In the light of these facts and figures, it is sufficiently obvious that Germany, starting from scratch as it were,

could not hope for several years to attain anything like the armed forces and equipment of France and Russia. No less an authority than Sir Frederick Maurice stated at the beginning of January, 1937, that in his opinion "the German army would not be ready to engage in a major adventure for four or five years." The idea that the whole of German industry and the whole of the industrial energies of the German nation have been diverted under Herr Hitler's direction during the last two years from productive industry such as textiles, leather, shipbuilding etc., etc., into the manufacture of guns, aeroplanes, barracks, and war preparations of all kinds, is manifestly absurd. Had this been the case, the finances of Germany would have collapsed and the people would have been starving. As a matter of fact, not only has the German home market been fairly well supplied with the ordinary comforts and necessities of life, but all the ordinary staple trades have been busy and have exported on much the same scale as before the arrival of the Nazi régime. In some countries of Europe and South America they have greatly increased their exports in competition with British and other foreign manufacturers. It is clear therefore that Germany's armaments industry, though it has certainly expanded enormously from the very small output of three or four years ago, has not encroached very much upon the normal peace industries of Germany. The expansion, as in Great Britain, has been enough to cause a great increase in the home output of iron and steel. But the reduction of unemployment is probably as much due to the expenditure on roads, drainage, etc., and labour camps, as upon armaments. Moreover the output of merchant ships and liners in the shipbuilding yards of Germany has expanded to a remarkable extent.

No doubt the German panic which has raged in so many of the sensational newspapers both of France and England has been assisted by the suppression of the last two German budgets, which may be compared with the similar precautions of Italy in regard to its extraordinary expenditure on Abyssinia. The suppression may be explained in various ways. It is partly no doubt due to a desire not to show the German public how rapidly the short term debt has been mounting, or what is the cost of the labour camps, of the police, or of conscription. But another reason is that German diplomacy, finding by experience that no concessions can be obtained, from France at any rate, by way of fair play and reason, especially as regards colonial outlet, has fallen back upon the argument of force, and is well pleased that the new military power of Germany should be magnified and exaggerated abroad, hoping thereby, rightly or wrongly, that Germany will henceforth be able to negotiate on better terms than when it was a defenceless republic. This perhaps sufficiently explains why the German people as a whole support the dictatorship and acquiesce in what they hope will be only a temporary loss of their personal and civil liberties.

We now turn to Mr Churchill's panic statistics of German expenditure as set forth to the House of Commons on April 23rd, 1936, during the budget discussions* ;—

“Meanwhile what is happening abroad? The Chancellor of the Exchequer used a most grievous expression when he said we could already feel the heat of the flames upon our faces. That is a formidable expression to be used by a Minister who is characteristically restrained in his language on the important occasion of the opening of the Budget. I have for a long time past made what I consider grave and startling statements about Germany's

*The following report is taken verbatim from Hansard's Parliamentary Debates, vol. 311, cols. 337-339.

expenditure on warlike preparation. I obtained my information originally from a source which I cannot divulge. I have, however, attempted to check it with a great many other points of view from every possible quarter; and I will give the Committee the result of my labours, in which I have been assisted by very able people, in good faith. A private Member has not the resources that are open to the Government, but I give the results for what they are worth. From the end of March, 1933 to the end of June, 1935, the official publications of the German Government show an increase in the public debt to a minimum of over seven milliards of reichsmarks, to which must be added the yield from increased taxation in that period, which has been used for Government expenditure, and which amount to five milliards. Therefore, the minimum expenditure of $2\frac{1}{2}$ years above the preceding Budget expenditure is 12 milliards, or £1,000,000,000 at the official rate of exchange. That is all that is acknowledged, but there are two other lines of approach which suggest that that figure is far below the actual fact. A veto prevails in Germany on all expansion of private plant for purely economic purposes. The capital expenditure of Germany other than for residential buildings may, therefore, be regarded as almost exclusively devoted to warlike preparations, in which, of course, I include the preparation of those great military roads where four columns of troops can march abreast, which may play a greater part in a future war than the fortifications that are being built.

Again, taking the figures from German official sources, the expenditure on capital account, deducting the expenditure on residential buildings, has been as follows: in 1933, nearly five milliards of marks; in 1934, nearly eight milliards of marks; and in 1935, nearly 11 milliards, a total of 24 milliards, or roughly £2,000,000,000. I am taking the rate of exchange at 12 marks to the pound, and I am making allowance for the fact armament production is much cheaper in Germany than it is here. (An Hon. Member: 'Why?') Wages are much lower.* Look at those figures, five, eight and eleven for the three years. They give you exactly the kind of progression which a properly developing munitions industry would take.

There is a second line of approach to these figures. There

*Surely absurd. If so, the cost of production in Russia instead of being the highest would be the lowest in the world.

is a marked increase in the German national income. Again I take this from official German figures. The increase in the national income has not gone into consumption. Wages have remained unchanged and the cost of living, if anything, has risen. Therefore, the increase in the national income has gone into constructional work, the bulk of which is represented directly or indirectly, I am led to believe, by armaments. Look at these figures of the German national income—in 1933, 1,200,000,000 reichsmarks; in 1934, 7,000,000,000 reichsmarks; and in 1935, 11,500,000,000 reichsmarks—exactly the same progression as I showed in the previous calculation.* That is exactly what you would expect from an industry getting on its feet, opening out, and finally coming into full blast. These figures make a total, since Herr Hitler came into power, of nearly 20,000,000,000 reichsmarks. The year 1935 shows, on this calculation as well as on the previous one, the same figure of over 11,000,000,000, which is considerably over the £800,000,000 which I have for some months past been bruited about the country.

There are means by which this progress can be checked. There is the number of persons employed in the armament and cognate industries and in the military forces. There has also been an elaborate investigation into the number of stamps which have been affixed to the three months' bills which are used for effecting this extraordinary process of internal inflation, but that is too complicated to trouble the Committee with now. They will see from what I have said that there is very considerable justification for the startling statement that I have advanced, and to which I most strictly adhere, that £800,000,000 was spent on warlike preparations in 1935 alone. Even if you take off £200,000,000, it does not alter the fact for any purpose for which we are concerned.† There remains a disconcerting and alarming figure. Do the Government contradict these figures? Unless my right hon. friend is able to contradict them specifically and can show reasons why they are wrong, I think my statement might be allowed to stand, and might be taken into the general currency of thought or this topic.

*These figures are ridiculous, but Mr Churchill has neither corrected them nor told us where he got them.

†Then would the subtraction of another £200,000,000 matter!

The Chancellor of the Exchequer used an argument about how expenditure would rise to a peak, then fall a little and then remain level but at a much greater height than at the present time. That is not the future as I foresee it. I cannot believe that, after armaments in all countries have reached a towering height, they will settle down and continue at a hideous level far above the present level, which is already crushing and that that will be for many years a normal feature of the world's routine. Whatever happens, I do not believe that will. Europe is approaching a climax. I believe that that climax will be reached in the lifetime of the present Parliament. Either there will be a melting of hearts and a joining of hands between great nations which will set out upon realising the glorious age of prosperity and freedom which is now within the grasp of millions of toiling people, or there will be an explosion and a catastrophe the course of which no imagination can measure, and beyond which no human eye can see."

Mr Churchill's statistical fabrications would have attracted no attention but for the fact that a popular orator has bruited them abroad and that they have been accepted with complacency by the Chancellor of the Exchequer and with passive incompetence by the House of Commons.

It will be observed that Mr Churchill, himself an ex-Chancellor of the Exchequer, was concerned in this discussion of the budget to justify "the grave and startling statements" with which he had been electrifying popular meetings for months past. The first question is where did he get his figures? From whom, or from what source? His answer is:—"I obtained my information originally from a source which I cannot divulge." We have heard it said that it came from the Comité des Forges, which would be as if a German panic-monger were to obtain information about French or Russian armaments from Krupp's. If on the other hand it came from a German ex-official, it is a pity that he did not provide details of "the Great Secret" and show how

German expenditure has been allocated during the last two years. Mr Churchill also refers to official publications of the German Government showing an increase in the public debt of a thousand millions sterling "at the official rate of exchange." With this may be compared M. Caillaux's estimate of the annual French deficit of about 400 millions sterling. Then he made the wide assumption that nearly all this money has been spent on armaments, and to crown the absurdity added that in the expenditure of Germany on Army, Navy and Air Force he included the expenditure on roads! What should we think of a German who added the French or British expenditure on roads to the French or British army estimates?

Forgetting perhaps that even in our own rich country there was during the economic crisis a huge and growing expenditure on capital account for the support of the unemployed, he directed attention to German capital expenditure and then inferred from an impossible alleged increase in the German national income (a certain increase would be a natural result of diminishing unemployment) that it had gone, not into consumption, but into constructional work. But if four or five million more German workmen are employed now than during the worst of the slump, surely their wages would go into consumption not into the building of roads or bridges, or barracks, or anything connected with armaments. After all, a German workman is a human being, and is likely to buy food and clothing for himself and family when he gets work after living on a pitifully small dole.

By such flights of an uncontrolled imagination Mr Churchill got together a fantastic figure of 20,000 million Reichsmarks as the total of German armament expenditure since Herr Hitler arrived in power; then he

converted it at the official rate of exchange—as if a German paid taxes in official Reichsmarks, or as if the German Government paid wages and contractors in a money which only applies to foreign trade. It was pointed out to Mr Churchill that travellers in Germany get marks at from 21 to 24 to the £, but he has taken no notice. On this score alone the 800 millions should be nearly halved, and if another 100 millions are deducted for roads, labour camps, etc., Germany's expenditure on rearmament would be reduced to about 300 millions sterling in 1935 and another 300 millions sterling in 1936. Taking German expenditure on armaments for the last five years the total is almost certainly less than that of France, less than that of Russia and perhaps about equivalent to that of Great Britain.

At the beginning of January 1937, in a quarterly report of a German Bureau of Business Research issued in Berlin, the world's total expenditure on armaments in 1936 was estimated at 2,916 millions sterling, compared with 844 millions sterling in 1913, and 1,444 millions sterling in 1929. According to this report Soviet Russia now leads the world in armaments, as indeed the Soviet authorities boast. In relation to Germany the report said:—"Germany's position with regard to armaments is exceptional, because Germany is compelled to bring her armaments up to the level of other nations after having been relegated to an inferior position by the Treaty of Versailles."

In Germany, as in Russia, at the close of 1936 the sacrifice of social comforts for rearmament was straining the popularity of Herr Hitler and taxing the ingenuity of Dr Schacht. The currency, though less despicable than that of Russia, was in a precarious and unsatisfactory state. Roughly speaking, the official exchange value of

the mark was 12 to the £, while the registered mark, which travellers use in Germany, could be had at the rate of about 22 to the £. There was a shortage of exchange, and consequently a recurrent shortage of various foods and raw materials. Commerce was carried on mainly by barter agreements and by devices which compelled Germany's business creditors to take payment in goods. The situation was neatly summed up by General Goering when he declared that guns were more important than butter, and by Herr Hitler in one of his peaceful moods when he pointed out how many houses could be built for the working classes if Germany reduced its output of shells. In the autumn of 1936 a message from the Berlin correspondent of the *Economist* (*Economist*, November 14th, 1936) told how the difficulties caused by armaments expenditure and by the four year plan were inundating Germany with regulations and restrictions of raw materials, labour, foreign exchange and prices. In the order of priority, national defence came first and house construction last. Materials and labour were being rationed. Holders of foreign currency were ordered to deliver up everything above two marks' value of token coins. The exportation of postage stamps was prohibited. Drastic measures were being taken against shopkeepers who raised retail prices merely because wholesale prices were rising.

CHAPTER VIII

THE ARMAMENTS OF FRANCE, ITALY AND RUSSIA

SINCE the War, when it regained Alsace-Lorraine by the Treaty of Versailles, France has extended over 212,000 square miles, and its population is estimated at nearly 42 millions. The Colonial Empire of France covers over 3,700,000 square miles, and has a population of nearly 60 millions. In September, 1935 its internal debt amounted to 334,694 million francs, and the estimated expenditure was 40,437 million francs. Of this expenditure over 19,000 million was required for the service of the debt, while 4,370 million were assigned to the Army, 1,372 million to the Navy, and 913 million to the Air Service. According to the Armaments Year Book the *ordinary* expenditure of France on armaments declined between 1933 and 1935. It amounted to 11,447 million francs in 1933, 11,186 million in 1934 and 10,622 million in 1935. But outside the ordinary budget expenditure there has been an enormous and rapidly growing extraordinary expenditure for fortifications and various special programmes, which must be met by borrowing. This is the principal cause of a series of deficits averaging about 25,000 million francs in the last four years, and of the much larger one which confronts the French Treasury in 1937.

The French Army consists of the home forces, the overseas forces (comprising French and colonial troops) and mobile forces which serve as the reserves of the permanent overseas forces, and consist of French and

native troops usually stationed in France or in North Africa. Every French citizen is liable to serve in the army. In the Colonies of Africa the quotas required are raised by the drawing of lots. The total effectives of the French Army in 1935 amounted to 642,000. The Air Force in France and North Africa consisted of thirty squadrons with 1,847 aeroplanes in France and 439 overseas, and a personnel of about 32,000 officers and men.

The French Navy in 1936 had a personnel of 70,000 officers and men. It comprised nine battleships, fourteen cruisers, sixty destroyers, and seventy-two submarines.

The most obvious weakness of the Popular Front Government in France has been in the department of finance. Towards the end of 1936 the Budget discussions in the Chamber and Senate revealed an unparalleled deficit. The ordinary budget issued in November showed an adverse balance of only 35 millions sterling, which was to be covered by borrowing ; but in addition to the ordinary expenditure there was an extraordinary budget of nearly 15,000 million francs, which included 9,502 million francs (about 90 millions sterling) for national and colonial defence and, added to the ordinary expenditure of about 143 millions sterling, brought the total expenditure on armaments, including fortifications, up to 233 millions sterling. Speaking before the Army Committee of the Chamber on November 4th, M. Daladier stated that, in addition to the Maginot Line, certain new fortifications would be built on the Swiss and Belgian frontiers. He said that the *morale* of the Army was excellent, but he regretted the existence of Communist cells. About the same time it was announced that over 12 millions sterling would be spent by France during 1937 on a new programme of naval shipbuilding, and in December 1936 it became known that 13 millions sterling would be lent to the Polish Government for

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armaments, of which four-fifths were to be supplied by French factories.

During the week's debate on French armaments in the Chamber of Deputies, which ended on February 2nd, 1937, the statements of the military, naval and air defence ministers were calculated not merely to reassure timid people about the strength of French defences, but also to demonstrate (assuming these official statements to be true) that if it came to war Germany has more to fear than France. The Chamber was informed that the French Army is stronger than the German, and that the Maginot Lines, which cost 100 millions, are being rapidly extended so that the whole French frontier, including that which abuts on Switzerland and Belgium, will be strong enough to resist "a lightning attack from Germany." This was in reply to a statement by M. Baugitte that Germany is spending between 250 and 300 millions sterling on military motor roads, and that 400,000 men are being employed upon them. As to the Air Force, the Air Minister, M. Cot, declared that France's first line 'planes have been increased by 37 per cent. since June, and that the bombing capacity of the French Air Force will have been doubled by the spring of 1937, and increased fivefold by the end of 1939. He said also that the French bombing machines were much swifter than the Germans, and that Soviet Russia is the only country with a stronger Air Force than France. The manufacture of gas-masks has been intensified and the production of tanks has been quadrupled. M. Daladier, the Minister for War, is "convinced that the fortified frontier system which runs from Dunkirk to the Jura constitutes a sure shield behind which all the forces of the country can unite." Lastly M. Gasnier-Duparc, Minister for Marine, stated that the French Navy with a tonnage of 420,000 was equal to the combined navies of

Germany and Italy, but its tonnage was to be doubled by the time that the German Navy has reached 450,000 tons.

On February 4th, addressing the Finance Committee of the Chamber of Deputies, M. Vincent-Auriol revised his estimates of the 1937 deficit and enlarged the sum which the Treasury would be obliged to borrow in 1937 to 36 thousand million francs, equivalent to about 361 millions sterling at the then rate of exchange. Of this total 46 millions sterling was the estimated deficit on the ordinary budget, and 137 millions sterling was the estimated extraordinary expenditure on armaments. It was also stated by the Finance Minister that the deficit for the four previous years had averaged about 25 thousand million francs a year. M. Vincent-Auriol's most capable critic declared that the reason for borrowing 40 millions sterling from the London bankers was that the French Government could no longer borrow at home because no one in France wanted French Government paper.*

During the budget discussions at the end of July, 1936 the French Prime Minister, M. Blum, said that his former dream of disarmament as a prelude to security was no longer possible in view of the situation in Europe. An Opposition Deputy, M. Paul Renaud, a well known authority on finance, insisted that, while France and Germany remained at loggerheads, there could be no real peace in Europe. Germany, he said, was rearming "day and night"; therefore to avert war the peoples which sought peace, namely the British and the French—Italy and Russia he thought were too uncertain—must "win the armaments race in order to avert war." During the later budget discussions towards the end of 1936 the government estimated its total deficit at 170 millions sterling; but two independent authorities, M. Caillaux and

*See *Times* February 5th and *Daily Telegraph* February 4th, 1937.

M. Renaud, stated that the loans required during 1937 would probably amount to from 350 to 400 millions sterling. A careful article on the subject in the *Daily Telegraph* of January 2nd, 1937, concluded with the words: "the piling of deficit on deficit offers no solution to the financial problems that France faces."

ITALY

Italy, the weakest of the great Powers, has enormously increased its expenditure on armaments and diminished its financial resources since, in defiance of the League, Mussolini ordered the invasion and conquest of Abyssinia. In the Great War, although eventually successful, Italy was brought to the verge of bankruptcy, and though the kingdom was enlarged at the expense of Austria-Hungary by the Treaty of Versailles, the people lost their constitutional liberty and fell under the dictatorship of Mussolini, the inventor of the Fascist State. The area of the Italian kingdom is 119,000 square miles, and its population is estimated at over 42 millions. Italy's share of Tropical Africa consists of Libya, which extends over 810,000 square miles but has only about a million inhabitants; Eritrea on the Red Sea with 60,000 square miles and 640,000 inhabitants, and Italian Somaliland with 220,000 square miles and about 900,000 inhabitants.

The invasion of Abyssinia began on October 3rd, 1935. On May 5th, 1936 Badoglio entered Addis Ababa, and Abyssinia was annexed, though the pacification of the country at the beginning of 1937 was far from complete, while the costs of occupation and of building the roads necessary to maintain it are enormous. Abyssinia covers about 350,000 square miles and its population is estimated at about seven millions.

The peace strength of the Italian Army had been raised in the autumn of 1936 to 750,000 men. Mussolini, in one of his bombastic speeches, declared that in time of war 8 million Italians would spring to arms. The whole male population of Italy is subjected to compulsory service, and in addition to this, military training is part of the educational curriculum in every school, where from an early age boys are taught the glories of war.

In the opinion of foreign critics the most efficient and powerful feature of Italian armaments is the Air Force, without which the conquest of Abyssinia would have been impossible. Even in 1934, the last year for which the *Armaments Year Book* gives statistics, the Italian Air Fleet comprised 1,861 aeroplanes. Mussolini has also spent vast sums of money on finely constructed motor roads in Italy. In 1936 the Italian Navy consisted of four battleships, one aircraft carrier, twenty-three cruisers, one hundred and three destroyers and torpedo boats, and sixty-two submarines, with a total of 529 thousand tons.

The armaments expenditure of Italy declined nominally from 5,439 million lire in 1931-2 to 4,299 million lire in 1934-5, after which it rose to 4,665 million lire in the 1936-7 estimates. No information about the extraordinary expenditure due to the war in Abyssinia and still continuing, is supplied by the *Armaments Year Book*. During the last two years most of the official statistics (including those formerly given by the Bank of Italy) have been suppressed, and the lira has been devalued in the last year by over 40 per cent. The last budget, for 1936-7, gave the ordinary revenue as 20,311 million paper lire, and the ordinary expenditure as 20,291 million lire; but since then an ordinary deficit of 17 millions sterling has been acknowledged. In June 1935, the internal

debt of Italy was stated to have risen to 105,389 million lire. The official exchange rate of the lira was, in January, 1937, about 93 lire to the pound, but in the so-called "black market" its value had fallen to 110 to the pound.

The drain of Abyssinia and the diversion of public expenditure into unproductive channels has been reducing lower and lower the standard of living and impoverishing all classes. Bankruptcies are constantly occurring among shopkeepers and manufacturers. When referred to by the newspapers it is merely stated that "So and So for private reasons has retired from business." It was the extinction of a large part of Italy's foreign trade, and the exhaustion of the gold reserve that compelled the Italian dictator to devalue the lira—a course which he had declared he would never adopt. A very complete system of spies and coercive measures in Italy, as in Germany and Russia, with a press and a wireless under the absolute control of the Government, serves to suppress manifestations of popular discontent. But when a Dictator has to sit on all the safety valves, his situation cannot be called either comfortable or safe.

ARMAMENTS OF SOVIET RUSSIA AT THE COMMENCEMENT OF 1937

In any attempt to calculate the present Balance of Power in Europe the military strength of Russia is an important though very uncertain factor. If the Franco-Soviet Pact can be relied upon by both parties, and if the recent statements of the Soviet authorities and of M. Blum are correct, Soviet Russia, is the greatest military Power in the world and France comes second. Before the war the Russian Empire comprised $8\frac{1}{2}$ million square

miles and contained about 183 million inhabitants, including Poles, Finns, Esthonians, Letts and Lithuanians who are now formed into separate independent States. The area of the Soviet Union is now less than $8\frac{1}{4}$ million square miles. Its population is growing rapidly and is estimated at over 170 millions. The whole of the Foreign Debt of Russia, which in January, 1917, before the Revolution, was enormous, has been cancelled and repudiated. Thereby the British Government and British investors have lost about 622 millions sterling, the French Government and French investors about 4,000 million gold francs, and the United States about 282 million dollars. Consequently the Soviet Government cannot borrow from investors abroad, though it has recently been granted a credit of 10 millions sterling in short term commercial paper guaranteed by the British Government.

It is evident that the two "frame-up" trials, "confessions," and executions (1936-7) of the old Bolshevik leaders, mostly Jews, who were accused of being concerned with Trotsky in a widespread conspiracy to overthrow Stalin's government, marked widespread changes and disturbances. After the second trials in January, 1937 nearly all Lenin's old colleagues except Stalin were dead or in exile or in prison. Communist propaganda abroad continued, but in the internal administration of Russia Communist principles were being superseded, and the attempt to enforce equality of incomes and wages and to put an end to private property had seemingly been abandoned. The dictatorship of Stalin can no longer be regarded as an expression of Marxian Socialism; it is rather a personal and precarious military tyranny, supported by the Police and the Red Army, with the assistance of the Press and the Wireless. The most probable

explanation of Stalin's almost frantic military preparations is not that he desires war but that he wishes to divert the attention of the masses from the general famine conditions in Russia. At the same time his practical abandonment of Collectivisation may be due to his discovery that the peasants will produce far more food if they have an individual interest in property and are allowed to benefit by their exertions.

It would appear that the trade credit of ten millions sterling granted to the Soviet Government by the British Government in July 1936, has created difficulties. The Soviet Government wanted to buy machinery and tools for armaments which cannot be supplied by British manufacturers, because there is a shortage of them for British rearmament. The people of Russia need clothing, but the Soviet Government is unwilling or unable to place large orders for Lancashire and Yorkshire textiles.

Conscription is universal throughout Russia ; in April 1936 the Red Army consisted of 750,000 regulars, 600,000 reserves and 160,000 military police known as the G.P.U. or Ogpu, who are the principal instruments of the Terror. At that time the Army was said to possess four thousand tanks and four thousand aeroplanes, while the Navy consisted of four (pre-war) battleships, seven cruisers, thirty-five destroyers and mine-layers, and fourteen submarines.

According to the *Armaments Year Book* the total budget expenditure on National Defence has risen from 1404 million roubles in 1931 to 14,915 million roubles in 1936 ! According to *Whitaker's Almanack* the total Soviet Budget for the year 1936 was 78,715,000,000 roubles, and the revenue exactly balanced the expenditure ! British correspondents in Moscow telegraphing on January 11th, 1937, gave official reports of meetings of

the Budget Commission and of the Central Executive Committee in the Kremlin. In the Budget Commission Gregor Grinko recommended that the total annual expenditure should be raised to 96,852,000,000 roubles, and the total armaments expenditure to 20,102,000,000 roubles, an increase of 35 per cent. on the year, and more than fourteen times the expenditure of 1931. It was also stated that Dictator Stalin and Marshal Voroshiloff loudly applauded Grinko's explanation that the enlarged budget would be devoted to war industries and to increasing the size of the Red Army, which then numbered 1,250,000—a total which is less by about 50,000 than that given in the *Armaments Year Book*, and 100,000 less than the figures supplied to *Whitaker's Almanack*. In August, 1936 it was announced that the age for military service would be reduced from 21 to 20, and after 1938 to 19. In November, 1936, M. Litvinoff declared in a speech at Moscow:—"The Red Army is the most powerful in the world. Its military resources are so great as to enable us to defeat any possible enemy or combination of enemies." Two months earlier a British Military Mission headed by Major-General A. P. Wavell visited the Red Army manoeuvres, and in an interview with the Moscow Press expressed his admiration, not only for the splendid fitness and endurance of the soldiers, but also for the commanding staff and the technical development of tanks and aeroplanes.* Assuming the Russian Army to be worthy of all these encomiums, it must be added that Russia, if the Soviet authorities decided to attack one or more of its neighbours, would labour under three disadvantages: first the almost complete absence of good roads, secondly the poor condition of its railways, and thirdly the bankruptcy of its financial system, which is

*See Reuter's message from Moscow in the *Evening Standard* of September 13th.

unable to support even a tolerable currency. In 1936 the official exchange rate of the rouble was reduced from 5.6 roubles to the £ sterling to 25.6 roubles to the £ sterling, *i.e.* to about one-fifth; but even at the rate of eightpence or ninepence the real value, or purchasing power, of the rouble is greatly exaggerated.

The reign of terror, the tortured confessions at the Moscow trials and the wholesale executions of those suspected of being involved in a Trotsky conspiracy against the government testify to the weakness of Soviet Russia under the burden of an ever-increasing expenditure on armaments. If the government were popular, the terror would be unnecessary. A dry light upon conditions in Russia was thrown by a letter from Moscow in the *Economist* of November 7th, 1936. In that letter, we were told, the aim of the Soviet foreign policy was to gain allies against Germany. Soviet leaders seek to create patriotic fervour by describing the horrors of Fascism, and thus to induce a famished population to submit to more and more sacrifices for war. If we accept the Soviet Government's estimates, one-tenth of the national income goes direct to the Red Army. In addition to this, out of a total production of 49 million roubles, 30 million go into "means of production" and only 19 million to consumers' goods. But most of the "means of production" pass into unproductive armaments. Capital construction on housing and other useful purposes lags far behind. Yet the average number of persons per room in Moscow last year was over three. Some workers were receiving higher pay for harder work; but 15 per cent. of them were on what is called a "subsistence level." In short, Soviet Russia, like Germany and Italy, is on a war economy. One example of economic conditions may

be cited. The average monthly industrial wage in Moscow is 207 roubles. A suit of clothes, which would cost six pounds in London, costs 750 roubles in Moscow, while the present (sham) official rate of exchange is twenty-five roubles to the pound sterling.

CHAPTER IX

THE ARMAMENTS OF OTHER EUROPEAN COUNTRIES

POLAND

POLAND, with an area of 150,000 square miles and a population of nearly 34 millions, is the largest and, in a military sense, the most powerful of the new states which were created by the Treaty of Versailles. It is distracted internally by a large Jewish population, which is often maltreated, and by other large minorities which complain bitterly of oppression and persecution. It was governed until his death in April, 1935, by a popular military Dictator, Pilsudski; but its Parliament has not been entirely deprived of functions and its Press is not completely under the heel of the Government like that of its two big neighbours. Its strategic importance in Eastern Europe is enormous because, like Czechoslovakia, it lies between Germany and Russia. Other neighbouring states are Czechoslovakia, Lithuania, Roumania, Latvia and Dantzig, which last city state (under the League of Nations) has been a source of perpetual friction between Poland and Nazi Germany. Poland has also a small stretch of sea coast, with which it is connected by the Polish Corridor, and it has constructed a good harbour, Gdynia, which competes with Dantzig for the trade of the interior. Until 1935 Poland was regarded as a military ally of France, but since the Franco-Soviet Treaty and the bitter hostility which has sprung up between Soviet Russia and Nazi Germany, the Government of Poland has tended to dissociate itself from France and to adopt an attitude of armed neutrality lest it should become a battleground between the red armies of the Soviet and the

forces of Nazidom. Nevertheless at the end of 1936 France granted Poland a loan for armaments, most of which were to be supplied from French factories. In December, 1936 Colonel Beck, the Foreign Minister, made a remarkable speech in the Polish Senate, in reply to the threat of a Soviet leader who had warned the Baltic States that Russia might re-occupy them. Poland, he said, was the guardian of the independence of Esthonia, Latvia and Lithuania.

The strain of armaments has forced Poland off the gold standard ; but hitherto the seven per cent. sterling loan raised in London since the war has been honoured both as to interest and sinking fund. The whole male population of Poland is trained for the army under a system of conscription. Compulsory service lasts for two years. There is also a large gendarmerie and a frontier guard, which performs the duties of a customs guard under the Minister of Finance. The total effectives of the land armed forces in Poland were estimated in 1934 at about 266,000 men. The navy, whose headquarters are at Gdynia, consisted in 1935 of a small number of destroyers, submarines and torpedo boats and of a river flotilla, totalling altogether 12,000 tons.

Poland's budget expenditure amounted annually from 1932 to 1936 to about 768 million zlotys. The value of the zloty was well maintained during this period ; indeed its purchasing power was somewhat higher in 1936 than in 1932. Its exchange rate in January, 1937 was about 26 to the pound sterling.

CZECHOSLOVAKIA

The Republic of Czechoslovakia, a new State created by the Versailles Treaty, was carved out of the Austro-Hungarian monarchy. It has a total area of 54,877 square

miles and about 15 million inhabitants. It is democratically governed and has more liberty than any of its neighbours, but is weakened by internal dissensions ; for its predominant population of Czechs and Slovaks, who speak dialects of the same Slavonic language, only number about 65 per cent. of the total population. Over 23 per cent. are Germans, who demand federal home rule ; over 5 per cent. are Magyars, and over 3 per cent. Ruthenians, or Little Russians. Its frontiers are conterminous with Germany, Poland, Hungary, Austria and Roumania. Its Army is recruited by conscription of all male citizens. The public credit of Czechoslovakia stands fairly high. A sterling loan, raised in London soon after the War, paying interest at 8 per cent. has never defaulted. When, in the autumn of 1936, the gold bloc broke down, Czechoslovakia devalued the crown. The budgetary expenditure on national defence has not altered greatly in the last six years. It declined from 1,764 to 1,553 million crowns between 1931 and 1933, and rose to 2,005 million in 1936. The index numbers of wholesale and retail prices were remarkably stable during the whole period. At the end of 1936 the exchange value of the crown was about 139 to the pound sterling, so that its value was rather less than twopence. A defence loan has been raised recently. There have been bitter complaints in the German press that the Czechoslovak Government is dominated by Soviet Russia and that its aerodromes would be used by the Soviet air force in case of a war against Germany.

SWITZERLAND

Switzerland, a federal republic with a total area of just under 16,000 square miles and a population of over four millions, had an estimated revenue of 490 million Swiss

francs in 1936, and an expenditure estimated at 437 millions. Its total debt at the beginning of 1935 was over 2,060 million francs. The total budgetary expenditure by the Confederation on national defence varied from 90 to 96 million Swiss francs between 1931 and 1936. Since devaluation in the autumn of 1936 the Swiss franc has settled down at an exchange value of about $21\frac{1}{2}$ to the £ sterling. A national defence loan was raised recently to supplement the ordinary military expenditure. The Swiss army is a militia, and 25,000 men are trained annually for a period of from 60 to 102 days. About 150,000 men also serve annually for 11 days in repetition training courses. The Air Force in 1936 possessed 160 aeroplanes. All citizens are liable for military service; but may be exempted on payment of a military tax which continues from the age of 20 to 40. Passive defence against air attack is organised by the cantons. Switzerland is a member of the League of Nations, which has its home in Geneva. It pursues a policy of strict neutrality; but a sense of insecurity has prevailed since 1934.

SCANDINAVIA

In Great Britain and the United States there has been in the past a failure to recognize the importance and strength of the Scandinavian countries—the homes of the Vikings, whose piracies and conquests once extended not only to Britain, Ireland and Normandy, but through Russia to Constantinople. Even in the seventeenth century, Sweden for many years could challenge the most formidable of European powers. The military and naval forces of the Scandinavian countries, even if we include Finland, are not very great; but judged by their wealth, their commerce and their mercantile shipping, they are

highly important. Taken together, their share in the world's commerce—though they have only 16,400,000 inhabitants, comes fifth, after Britain, the United States, Germany and France. The total foreign trade of Scandinavia, imports and exports, was valued at about 350 millions sterling in 1935, and Scandinavia was the largest of Britain's European customers. It may be noted here that the meeting of the five Scandinavian countries—Sweden, Denmark, Norway, Finland and Iceland—on October 27th, 1936, led to the formulation of a joint foreign policy based on the principle of strict neutrality and of closer co-operation. The budgetary condition of all these states is on the whole sound and well-balanced, and their expenditure on defence is comparatively moderate.

SWEDEN

The kingdom of Sweden has an area of over 173,000 square miles and a population of about 6,250,000. Its revenue and expenditure balanced, according to the estimates of 1936-7, at about 1,237 million kronor, and its debt in 1936 was about 2,387 million kronor, a very moderate burden. The annual burden of armaments is also a moderate one in comparison with that of most other European states. Like Norway and Denmark, Sweden maintained its neutrality and independence during the Great War, which entailed considerable economic losses and additions to expenditure. According to a paper prepared for us by the Anglo-Swedish Chamber of Commerce the cost of Swedish armaments had risen from 82 million kronor in 1913, to 220 millions in 1920. Thereafter it fell gradually to 111 millions in 1934-5 and has since risen to an estimate of 126 millions for 1936-7, which is about one-tenth of the annual revenue. Sweden

has also the advantage of a sound monetary system related to sterling. These facts help to explain why at the beginning of 1937, judged by wages, trade, public credit, and unemployment (which is almost negligible) the Swedes are, at the time of writing, probably the most prosperous people in Europe.

Military service is compulsory, except for conscientious objectors who may perform civil work instead. The number of effectives in the standing army in 1935 was about 27,000. The Air Force in 1936 comprised 93 war aeroplanes. The Swedish Navy in 1935 included ten small battleships and 43 cruisers, destroyers and small vessels, with a total tonnage of 98,000.

DANISH, NORWEGIAN AND FINNISH ARMAMENTS

The total estimated expenditure of Denmark for 1937 is 416 million kroner, and the total estimated revenue is 421 million kroner. Rather more than one-eighth of the expenditure, 56 million kroner, goes to the Army and Navy, which is much the same as in previous years. Norway's expenditure on national defence has risen slightly in the last six years from 37 to 39 million kroner. The increase in the case of Finland was only from 706 million Finnish marks in 1921 to 708 million in 1935; but the estimates for 1936 rose to 864 million, through an increase of capital expenditure on both Army and Navy.

It may be added that in November, 1936, the exchange value of the Swedish kronor was 19.3 to the pound sterling; that of the Norwegian, 19.8; and that of the Danish, 22.3. The three countries belong to the sterling group. The Finnish mark stood at about 226 in exchange for the pound sterling, being worth a little more than a penny, whereas the Swedish kronor is worth over a shilling.

DENMARK

The Danish Army is recruited by compulsory service, but conscientious objectors may be employed on other State work. The effective army consists of about 10,000 men, and there is a small navy.

NORWAY

The Norwegian Army cannot be employed outside Norway without the consent of the Storting. Military service is compulsory, but conscientious objectors may perform civil work instead of military training. The small standing army consists of about 3,000 officers and men. Attached to the Army are 64 aeroplanes. The Navy consists of four small battleships, three destroyers, 25 torpedo boats and nine submarines, in all 23,000 tons.

FINLAND

In Finland military service is compulsory, but conscientious objectors are allowed to do civil work instead. The Army establishment in 1935 consisted of about 24,000 conscripts and over 18,000 officers. There is also an Air Force and a small Navy.

LATVIA, LITHUANIA, AND ESTHONIA

In accordance with President Wilson's prescription of self-determination, the Treaty of Versailles carved a number of independent States out of the two defeated Empires of Austria and Germany, and also out of Russia, whose Baltic provinces were converted into the small independent States of Latvia and Esthonia. The Esthonians speak a language akin to Finnish, which is non-Aryan. The Latvians speak an Aryan language, which is akin to that of their neighbours, the Lithuanians, who also

obtained independence and were given access to the sea at the German port of Memel.*

The populations and military power of Esthonia, Latvia and Lithuania are quite small. The national defence expenditure of Esthonia amounts now to between 17 and 18 million kroons, which is a million more than five years ago, and is equivalent to a million sterling, as about 18 kroons go to a pound. The largest ship of the Navy is a torpedo boat of 228 tons, which carries two three-inch guns and two torpedo tubes. All Esthonians are liable for military service. The total population is about 1,130,000, and the area of Esthonia is 18,632 square miles.

Latvia's population is nearly two millions and its area is about 25,000 square miles. Its expenditure is considerably larger than that of Esthonia; but its finances since the War have been less satisfactory. Esthonia has maintained punctual payment on the League of Nations' loan; but Latvia's public credit is low, owing to the default of Riga on its pre-war debt. The Latvian Army consists of infantry, cavalry, artillery, tanks and aeroplanes, which numbered 79 in 1936, according to the *Armaments Year Book* of the League of Nations. Military service is compulsory. The Navy consists of two submarines, and one or two gunboats. The expenditure on armaments amounts to 32 millions of lats. This is the same as in 1931. The exchange value of the lat has however, fluctuated widely. In 1936 it averaged about 20 to the pound.

The population of Lithuania is 2,500,000. Its area is 20,000 square miles, including Memel. Its land frontiers march with Germany, Poland and Latvia. Its relations

*Poland, the largest of the new States, was carved out of Russia, Austria and Germany, and was provided with access to the sea at Dantzic by the Polish Corridor, which separates East Prussia from Germany.

with Poland have been bad ever since the War, owing to a disputed frontier ; and there have been constant quarrels with Germany over the administration of Memel. The Lithuanian Army includes infantry, cavalry, artillery and an air force. It consists partly of conscripts, partly of an active force of regulars, which is maintained to guard the frontiers. Active service lasts for eighteen months. The budget of national defence cost 65 millions of litai in 1935, compared with 55 millions in 1931. The lita was worth about 30 to the pound in 1936.

While Lithuania is chiefly concerned about Poland and Germany, the other two Baltic countries—Latvia and Esthonia—are, like Finland, chiefly afraid of Russia. At the All-Union Soviet Congress in Moscow, in November, 1936, a menacing speech was delivered by Zdanoff, the Secretary of the Communist Party in Leningrad, who said :—" If these (Baltic) countries yield to Fascist influence, the Red Army, based on the industry of Leningrad, will have to open the window into Europe and take a look to see what is going on outside."

SPAIN AND PORTUGAL

When Don Manuel Azana was elected President of the Spanish Republic on May 10th, 1936, a coalition of the Left was formed and a military revolt under General Franco started in July. Since then Spain has been in the throes of a ferocious and devastating Civil War, which seems likely to reduce the nation for many years to insolvency and impotence. Hence it is unnecessary to describe the recent history and cost of the Spanish Army and Navy. But it may be useful to state that Spain has an area of over 196,000 square miles, and that its estimated population before the Civil War broke out

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was about 24,600,000. Spanish territory included the Balearic Islands, Ceuta, Melilla, and the Canary Islands. The Spanish colonies in Africa covered a total area of about 82,000 square miles with a population estimated at 950,000. The principal of these was Spanish Guinea. The Protectorate over Spanish Morocco (which furnished General Franco with efficient troops) has been, and is likely to remain, a fertile source of mischief not only in Spanish but in international politics.

Since 1911 Portugal has possessed a Republican form of Government. The President is elected every seven years, and appoints the Prime Minister. The present Prime Minister, Antonio de Oliveira Salazar, who is also Minister of Finance and of War, has proved a model administrator, and his financial reforms have instituted an era of prosperity for a country which a few years ago seemed to be hopelessly overloaded with debt and taxation. From an excellent report by Mr A. H. W. King, British Commercial Secretary at Lisbon, dated July 1936, we learn that the annual charge for interest on the National Debt of Portugal has been reduced from about 15s. to 10s. per head. Since 1929 "a succession of seven budget surpluses, achieved in the teeth of depression, is evidence of what capable and honest administration can do." It is to be hoped that the Spanish Civil War will not interfere with the Portuguese Government's programme of social reforms and economic developments.

Portugal has an area of over 34,000 square miles and its population exceeds seven millions. It has also a great colonial Empire of over 802,000 square miles, with a population estimated at about eight and a quarter millions. The Portuguese overseas possessions comprise West Africa or Angola, East Africa or Mozambique, the Cape

Verde Islands, São Thomé, and some small territories in India, China, and the Malay Archipelago.

Military service in Portugal is compulsory; but of those liable to service, only about 25 per cent. receive military training. The total Army in peace time consists of about 50,000 officers and men; but some 400,000 are supposed to be available on mobilisation. The Navy consists of forty destroyers, submarines, and small craft, manned by over 5,000 officers and men. Colonial defence forces are maintained under the colonial governments, and amount altogether to about 10,000 officers and men.

The total budgetary expenditure on the Portuguese Army has risen from 239,000,000 escudos in 1932-3 to an estimate of 403,000,000 in 1936; but the expenditure on the Navy, after rising to 272,000,000 escudos in 1933-4, was reduced to 181,000,000 in the 1936 estimates. The purchasing power of the escudo has risen by 14 or 15 per cent. since 1930. In the autumn of 1936 the exchange value of the escudo was over twopence—the rate of exchange being 110 escudos to the £ sterling.

THE LOW COUNTRIES—HOLLAND AND BELGIUM

In any adequate work on the history of War and preparations for War, Holland (seat of the Hague Court, one of the most valuable of international institutions) would occupy a large space. In their long and heroic struggles for political and religious freedom, Hollanders, or Dutchmen, proved themselves the bravest as well as the most stubborn and tenacious of all the small nations of what we are still accustomed to call the civilised world. But since the end of the Napoleonic Wars in 1815, they have learnt the lesson that war is neither necessary nor

profitable. They have no desire to enlarge their frontiers or their colonial empire. They have taught other small nations that it is a mistake to join in the desolating wars for the Balance of Power, which twice since the French Revolution have decimated the populations and ruined the finances of the great naval and military Powers of Europe. In spite of efforts to lure them into one camp or another between 1914 and 1918, and in spite of the hardships suffered by Dutch shipping and commerce, with consequent shortages of food and raw materials, they maintained during the Great War a strict and undeviating neutrality, though they extended the utmost kindness and hospitality to thousands of unfortunate refugees from Belgium.

Belgium, relying partly on guarantees of neutrality and partly on joint arrangements with France and Great Britain for defence against German attack, was one of the victims of the Great War, and once more deserved the unenviable sobriquet of the "Cockpit of Europe," which it had earned in previous centuries. It had enjoyed peace since 1815, and in the Franco-German war of 1870 it had been saved, as we have seen, by the action of Mr Gladstone's government.

The importance of Holland and Belgium in the history of modern European warfare may be estimated from the fact that in the two greatest wars in which Britain has engaged, her statesmen made the independence and integrity of the Low Countries their principal justification for taking part. The administration of Pitt and the administration of Asquith, supported in both cases by large majorities in Parliament, maintained that the independence of these two small nations was of vital interest to Great Britain, and that consequently the whole strength of Britain must be engaged to prevent in the one case

France and in the other case Germany from occupying the Low Countries.

HOLLAND

The kingdom of Holland, or of the Netherlands, contains an area of 13,514 square miles, and a population of about 8,500,000. Its Colonial possessions especially the Dutch East Indies are large and important, consisting of 730,000 square miles with about 53,000,000 inhabitants. In spite of indirect losses caused by the War to its shipping and commerce and the severe depression since 1930, from which it is only just beginning to recover, Holland remains one of the richest countries in the world. Though its debt has greatly increased since 1914, the national credit is almost on a par with that of Great Britain and of Sweden. Its funded and floating debt now amount to over 3,060 million gulden, and its total budget of expenditure to 710 million gulden. Of this sum, 88 millions were devoted to national defence, a total slightly higher than the expenditure in 1933 and 1934. In 1936 a new defence programme was inaugurated by Holland for frontier fortifications, which will require considerable expenditure, estimated at 26 million gulden in 1937.

The Dutch government maintained free trade and the gold standard after 1931 when Britain abandoned both; but it was forced by the partial closing of the British and German markets to adopt defensive quotas and higher tariffs; and when, in 1936, the French government devalued the franc, Holland was driven off the Gold Standard. It still, however, maintains the Open Door in its colonies, and refuses to adopt discriminating tariffs though to some extent protecting the trade of the Netherlands with the Dutch East Indies by quotas.

In July 1935 the Dutch Navy consisted of three small battleships, three cruisers, thirteen destroyers and

torpedo boats, and twenty-seven submarines, with a total tonnage of 66,000. An efficient Air Force is attached to both the Army and the Navy. The Army is based on conscription. The standing army is small, but over 350,000 militiamen can be called up. The costs of defence in the Dutch East Indies (Java, Sumatra, etc.), are borne by the Colonial Budgets, and amount to 74,000,000 gulden.* Since devaluation in the autumn of 1936 the rate of exchange has been about nine gulden to the pound.

BELGIUM

The kingdom of Belgium, with a total area of 11,750 square miles (including Eupen and Malmédy, which were detached from Germany by the Treaty of Versailles), has a population of over 8½ millions. It is bounded on the North by Holland, on the south by France, and on the east by the Duchy of Luxembourg, to which it is joined by a Customs Union. Belgium consists partly of French and partly of Flemish speaking provinces. The great Congo State in Africa has an area of over 900,000 square miles with a population exceeding nine millions. It is administered by the Belgian Government.

Before the War, as is well known, the Belgian Government, having ceased to rely upon the old neutrality guarantees of Belgium and Luxemburg, engaged in military conversations with French and British generals, and spent considerable sums on its army and fortifications. After the War, a disarmed Germany gave no further anxiety. But when the rearmament of Germany was started by the Nazis, serious political dissensions arose among the Flemings and Walloons in regard to foreign policy. Eventually, when Germany re-occupied the

*In 1936 when the total budget of the Dutch East Indies amounted to 306 million gulden.

Rhineland, justifying this violation of the Treaty of Locarno by what Herr Hitler described as its moral violation by the Franco-Soviet Pact, the Belgian Government decided to revise its policy, and to drop the Franco-Belgian staff conversations. The new policy of strict neutrality was announced in King Leopold's speech at a Council of Ministers on October 14th, 1936. It provoked a minor diplomatic crisis in Paris, which wished to maintain Belgium as a military ally for defence against Germany.

An interesting article from a Brussels correspondent in the *Times* of November 12th, 1936, described the change of feeling in Belgium which accounted for the change of policy. The chief points of the article may be summarised as follows :—

The Flemish nationalists argue that German rearmament was precipitated by the Barthou Note of April 17th, 1934; that Collective Security was killed by M. Laval's equivocations in the Abyssinian War, and that the French network of treaties drawn across Europe was making Belgium a mere pawn of French diplomacy in the game of Power politics.

Meanwhile the Walloons had also begun to question French policy and were especially shocked by the Franco-Soviet Pact. Most of them being Catholics and anti-Socialists, they feared that the Left had become too powerful in France, and they were annoyed by the influx of French Socialist workmen during the summer holiday, many of whom shouted "a bas les Bourgeois" at inoffensive Belgian holiday-makers on the coast.

Hence the Belgian Government had to recognise that neither Walloons nor Flemings would vote for an extension of military service if the Belgian Army was to be at the disposal of French generals. The declaration that Belgium would pursue a policy "exclusively and entirely Belgian" was greeted with general enthusiasm. "It is safe to say," wrote the correspondent, "that Belgian public opinion considers the Locarno Treaty to be dead, that it will not permit Franco-Belgian staff conversations beyond a strictly limited period, and that it will not allow the Government to sign any Treaty by which Belgium, as in the Locarno Pact, undertakes to guarantee frontiers other than her own.

What Belgium now wants is a guarantee from Great Britain that she will defend Belgian territory against aggression (this has since been given by Mr Eden). She desires complete independence based upon England. She will strengthen her Army so as to offer the maximum deterrent to a possible aggressor ; but she pins her ultimate hope to Mr Baldwin's declaration that the British frontier begins upon the Rhine. Her faith in the League of Nations has been shattered ; she will stay in the League only if Article XVI is completely modified."

Thus Belgian public opinion has swung over to what has been the consistent attitude towards France and Germany of Dutch statesmanship, and this change was warmly welcomed in Holland. The Armaments budget of Belgium has been increased from 936 million francs in 1933 to 1,359 (estimates) in 1936. Military police expenditure in the Belgian Congo is estimated at 58 million francs. The Belgian Navy was abolished in 1928 to save public money. Compulsory service for the Army is universal. The effectives number 67,000 men.

SOUTH EASTERN EUROPE

Before the Great War an English statesman well versed in foreign affairs used to describe the Balkans as Hell's Kitchen, and the writer well remembers visits in 1907 to Athens, Constantinople, Sofia and Belgrade—including a journey through Macedonia—which convinced him that all these regions were still seething with racial and religious animosities dating from far distant times. The two Balkan Wars only inflamed the combatants with new territorial aims. The Serbs lusted after Bosnia, and it was the murder of the Austrian Crown Prince and his wife in Sarajevo, the capital of Bosnia, by Serb assassins, that started the Great War. If only there had been wise statesmanship at Versailles in 1919, an opportunity then offered itself for territorial re-arrangements which

might have satisfied the principle of self-determination without injustice to the vanquished and without breaking up the commercial intercourse on which the unfortunate peasants depended for their markets. A Federation of the States wholly or partly comprised in the Austro-Hungarian Monarchy would have ensured material progress and a prosperity unknown since the Roman Empire for South-Eastern Europe. But the politicians and professors preferred to break up the old Empire regardless of economic conditions, and left the new States to surround themselves with high tariffs dividing farms and districts from one another in such a way that products could no longer be exchanged. The States which they aggrandised—Yugo-Slavia, Roumania, and Greece—are now more or less insolvent.

Worse still, Bulgaria was deprived of ports which it needed, and Hungary lost not only its Slav and Roumanian territories but also large districts mainly inhabited by people of Magyar blood speaking the Magyar language. The Treaty reduced the forces of Bulgaria and Hungary to very small dimensions while their victorious neighbours Czechoslovakia, Yugo-Slavia, and Roumania continued to maintain armaments which imposed an intolerable strain on their finances. Greece, after the war with Turkey in 1922, was helped by League of Nations Refugee Loans to transfer its Greek population in Asia Minor and Constantinople to Greece ; but even so it has also relapsed into bankruptcy, and in 1936 lost its liberties to a military dictator, General Metaxas.

Though properly speaking they are not Balkan States, it will be convenient to include Austria and Hungary in this group ; for before the war large territories now included in Yugo-Slavia and Roumania were comprised in the dual monarchy of Austro-Hungary.

AUSTRIA

The new Austria, reduced to an area of 32,175 square miles, and a population of less than seven millions, was mercifully relieved of conscription by the Treaty of Versailles. The army was limited to a small force, which was quite adequate for internal purposes until the establishment of Nazi rule in Germany, for until then Austria required no assistance against aggression, as it no longer included Slav populations within its borders.

At the Ambassadors' Conference on May 24th, 1922, a maximum figure of just under forty thousand was sanctioned for the total effectives of the new Austria's army, police and gendarmerie. According to the *Armaments Year Book* the total figure in the autumn of 1936 was four thousand below the approved maximum. But since the disturbances in Austria caused by the growth of a large Nazi faction, and especially since the murder of Dollfuss, various voluntary formations sprang up and a measure of conscription has been introduced by the new Dictator. Solvency was gradually restored by judicious loan and budgetary supervision. The Budget expenditure on National Defence has risen from 81 million schillings in 1932 to 126 millions in 1936. In 1936 the Austrian schilling was rated at about 27 to the £ sterling.

HUNGARY

Post-war Hungary with an area of only 36,179 square miles and a population of just under nine millions was also relieved of the burden of armaments and of conscription by the Treaty of Versailles, and was also, like Austria assisted by League of Nations loans. It is governed by a modified Dictatorship, which has not abolished Parliamentary institutions, though their power

has been severely curtailed. The total strength of the Hungarian army, recruited by voluntary enlistments, has been about 35,000 during the last decade and the expenditure on National Defence has been between 85 and 94 million pengo during the last five years. In 1936 the Hungarian pengo was rated at about 17 to the £ sterling.

On November 13th, 1936, after a Three Power Conference between the Dictators of Italy, Austria and Hungary, an official communiqué was issued. Its terms were rather vague; but it was taken to mean that both Austria and Hungary, with the assent of Italy, had withdrawn from those limitations of the Treaty of Trianon which abolished conscription and restricted the size of their armies. As previously mentioned, the Austrian Dictator had introduced a modified form of conscription; after this change, which was announced in April, 1936, it was anticipated that about 50,000 conscripts would be called to the colours. The movement towards rearmament in Austria and Hungary aroused protests from their heavily armed neighbours, Czecho-Slovakia, Yugoslavia and Roumania, which have acquired great slices of Austrian and Hungarian territory, and are especially nervous because they fear that Hungary will never acquiesce in the loss of those portions of old Hungary which are mainly inhabited by Magyars.

YUGO-SLAVIA

The new kingdom of Yugo-Slavia—a greatly enlarged Serbia—has an area of over 96,000 square miles and a population estimated at about 15,000,000. Its frontiers border on Italy, Austria, Hungary, Roumania, Bulgaria, Greece and Albania. Its armed forces comprise an army, a navy and an air service. The country is governed

more or less despotically by a regency ; for the assassination of King Alexander, in October, 1934, left an infant son heir to the crown. Military service is compulsory on all adult males, and those unfit for service have to pay a military tax. The total of so-called budgetary effectives in 1936 was 115,000. The navy consists of a small cruiser and a few torpedo boats and submarines whose total tonnage is only 9,500. The expenditure on National Defence has varied in the last six years from 1,704 to 2,413 million dinars. According to *The Times*, the estimates for 1936-7 for the fighting services were 2,309 million dinars. To judge by the index numbers the value of the dinar has not varied much in the past four years. In December, 1936, the exchange value of the dinar was about 212 to the £ sterling, so that it was worth a little more than a penny. In January, 1937, a pact of friendship was made with Bulgaria which may, it is hoped, end the troubles of Macedonia.

On February 4th, 1937, the Prime Minister, Dr Stoyadinovitch, after referring to his country's love of peace and the recent pact with Bulgaria, declared that Yugo-Slavia was on friendly terms with France, Germany, England and Italy. On his last tour of inspection with the Minister of War he had found, he said, that their Army could at any moment muster 1,500,000 of the finest and best-equipped soldiers in Europe.*

BULGARIA

Bulgaria has been the most unfortunate of the Balkan States. After the successful war of the Balkan League against Turkey, Bulgaria quarrelled with her allies, was defeated, and lost about 2,000 square miles of territory to Roumania in 1913. In 1915 Bulgaria joined Germany

*See *Times* February 5th, 1937.

in the Great War, and at the end of it was forced to cede her Thracian territory to Greece, and so lost a Mediterranean port of great economic value to Bulgaria and of none to Greece.

The Bulgarian kingdom now consists of just under 40,000 square miles, with a population of over six millions. Her frontiers are with Roumania, Turkey, Greece and Yugo-Slavia. In 1936 her Army consisted of eight regiments of infantry and three of cavalry, in addition to a gendarmerie and a frontier guard. Compulsory service was abolished after the War, but a military tax is paid by Bulgarians who do not enlist voluntarily for military service. For the last six years the Army has consisted of about twenty thousand men, while the gendarmerie and frontier guard number a little under ten thousand. The Navy consists of a small flotilla of patrol boats on the Danube. In 1932 the expenditure on national defence amounted to 792 million levas and in 1936 to a little over a thousand million levas. The exchange value of the leva in December, 1936, ranged from 390 to 420 to the £ sterling. It was therefore worth rather more than a halfpenny.

GREECE

If territorial aggrandisement, rather than the improvement of popular welfare by judicious finance and productive expenditure, is the true aim of a state, Greece can claim that, by the series of wars in which it has engaged since 1912, it has been eminently successful. Before the Balkan Wars, the area of the Kingdom of Greece was less than 25,000 square miles. As a result of these wars in 1912 and 1913, its area was extended to over 43,000 square miles. After much hesitation during the Great War Greece eventually joined the Allies, and was rewarded

in the division of spoils by Thrace, as well as by a mandate for Smyrna. This last present led to a war with Turkey and the annihilation of the Greek Army in Asia Minor. Eventually by the Treaty of Lausanne (1923), Greece had to return Eastern Thrace, Imbros and Tenedos to Turkey. An exchange of Greeks for Turks was also affected, and under the auspices of the League of Nations a large loan was raised in London to build homes for many thousands of Greek refugees from Constantinople and Asia Minor.

Meanwhile, as the result of war and wasteful expenditure, the Greek Debt rose from rather more than 1,000 million drachmas in 1912 to 44,985 million drachmas in 1935. The value of the drachma has depreciated. For several years the Greek State has been insolvent, and only fractional payments are being made on sterling loans borrowed in London.

The total area of Greece, now again a Kingdom after a short period of Republican Government, is a little more than 50,000 square miles. Its population at the last census of 1928 was 6,204,000. Greece is largely an island kingdom, with an extraordinarily long sea frontier in proportion to its area. Its land frontiers are with Turkey, Bulgaria, Yugo-Slavia and Albania; but their total length is only 1,180 kilometres, whereas the sea frontiers of continental Greece and the Greek Islands aggregate 13,574 kilometres. Yet for the sake of obtaining a small additional strip of sea coast, the Greek Government after the War chose to antagonise the Bulgarians, and so perpetuated great risks to themselves and an insupportable burden of armaments. The national feud which keeps Bulgaria out of the Balkan League has united it in sympathy with Hungary as one of the countries which was treated with manifest unfairness by the victorious Allies after 1918.

The Greek Army is based on the principle of compulsory service, and both its officers and men reflect the political feuds between monarchists and republicans (to say nothing of communists) which distract the nation and lead to constant changes of Government. The Greek Navy in 1936 consisted of one old battleship, a modernised cruiser, a minelayer, 21 destroyers and torpedo-boats, and six submarines ; in all, about 40,000 tons. There is also a small but expensive air force. The total budgetary expenditure on armaments has risen from about 1,740 million drachmas in 1932 and 1933, to 2,444 millions in 1935-6. In the same period, however, owing to growing financial difficulties, the drachma has depreciated, the index number of wholesale prices having risen from about 81 to 113. The drachma, which was worth about ninepence before the War, exchanged in December, 1936, at the rate of 540 to 555 to the pound, being worth less than a halfpenny.

ALBANIA

Albania, the smallest of the Balkan States, with a total population of just over a million inhabitants, who occupy part of the east coast of the Adriatic Sea opposite Italy, is the smallest and weakest of the Balkan States. Until the Balkan War of 1912, it belonged to Turkey. In November of that year it declared its independence, which was recognised by the Treaty of London in December, 1912. After a period of anarchy during the Great War the independence of Albania was guaranteed by the Allies. After various revolutions and a short period of Republican Government, the Crown was offered to the President, who took the title of Zog the First, King of the Albanians. He governs with the assistance of a Council of State and a House of Representatives,

and extracts a revenue of about 18 million gold francs from a poor and primitive population.

The Albanians are all liable to military service, and the Army includes an efficient gendarmerie, a royal guard and a frontier guard. The total effectives number about 13,000. The Navy consists of a small flotilla of only 184 tons in all. The total expenditure on national defence has fallen from 15 million Albanian francs in 1931-2 to less than 7 million francs in 1935-6. This is mainly due to an appreciation in value of the currency shown by a decline in the index number of wholesale prices from 89 to 59.

TURKEY

Turkey, after losing nearly all of its European territory in the Balkan Wars and the Great War, recovered a portion of Thrace and Asia Minor, thanks to its Dictator, Kemal Ataturk, who completely defeated the Greeks at Afyon Karahisar. Turkey now extends from Adrianople to Transcaucasia and Persia; its coast extends from the Black Sea to the Mediterranean; its frontiers are continuous with Syria, Iraq and Iran, as well as with Russia, Greece and Bulgaria. Its total population is estimated at about 16,200,000 of which only 1,250,000 are in Europe.

The Army, which is based on compulsory service, consists nominally of 198,000 men in summer and 133,000 in winter; but the *Armaments Year Book* of the League of Nations states that for reasons of economy the total effectives for several years have never exceeded 150,000 men. The Turkish Navy has a total tonnage of over 53,000, including two old battleships, two old cruisers, four modern destroyers and a few torpedo-boats and submarines. A new programme of naval construction has just been adopted. The expenditure on national

defence has not risen in the last few years. It was 56 million pounds Turkish in 1931-2, and 57 millions in 1935-6. There had, however, been a slight fall in wholesale prices during the period. The Army accounts for 44 millions; the Air Force for about 5 millions; and the Navy for about 4 millions. The lira, or Turkish pound, equals a hundred piastres; but the piastre has depreciated to about 612 to the £ sterling. Before the War it was equivalent to a shilling. It is now worth less than a halfpenny.

It was announced from Angora on February 4th, 1937, that the estimates of expenditure in the Turkish Budget had been raised by about five millions sterling, the greater part of which would be spent on armaments and especially on heavy artillery and aircraft.

CHAPTER X

NAVAL COMPETITION

When we pass from European armaments to those of the two Great Powers which dominate the Americas and the Far East, we are confronted with the problem of Naval Competition and with the failure to arrest its costly progress.

On the last day of December 1936 the Washington Naval Treaty of 1922 and the London Naval Treaty of 1930 expired. Already the arrival of the date had been discounted; for the three leading Naval Powers, Great Britain, the United States and Japan, had agreed not to scrap various vessels which should have been scrapped in accordance with their treaty obligations. As has been pointed out by a well-known naval expert,* the Washington Naval Treaty had for fifteen years regulated and restricted the strength of the five leading battleship fleets, while the London Treaty had for seven years kept the lighter naval tonnage—cruisers, torpedo craft, and submarines—of the British Empire, the United States and Japan, within agreed limits of relative strength. These arrangements, based upon sound common sense and confidence, have expired, and for them are substituted unlimited rivalry and competition between all nations, based upon fear and distrust, and only restricted by lack of money or credit. In the words of the authority just quoted a new London Treaty, concluded in March 1936, has only been ratified by the United States; and in any

*H. C. Bywater in the *Daily Telegraph*, Jan. 1st, 1937.

case the restrictions it imposes on the tonnage and gun calibre of future warships are not of much value. Even if it is ratified and the rules are observed, any Government will be free to build as many new ships as it pleases. Unless a new treaty of disarmament can be introduced and carried, quantitative limitation of the world's navies has come to an end.

A distinguished Naval authority, Admiral Sir Herbert Richmond, has been good enough to furnish us with the following suggestions on the subject of naval economy and the right method of approach.

NAVAL ARMAMENTS, 1936

(Notes furnished by Admiral Sir Herbert Richmond)

An Explanatory Memorandum (Cmd. 5137) of the London Naval Conference, issued in the spring of 1936, states that "consultations" will be initiated by the British Government in the last quarter of 1940 to consider the holding of a new Conference in 1941. It goes on to say:—"In the course of the consultations, views will be exchanged to determine whether, amongst other points, it may be possible to agree upon a reduction in the calibre of guns and in the size of future capital ships."

If nothing is begun before the eleventh hour in 1940, it may be taken as certain that no agreement will be made, simply because it will not leave time for this country and for all the others to study this problem. There is an infinity of prejudice and prepossession which governs the whole problem. The "scientific" method has never been used. At no time has the question been considered: "What is it that governs the size of the 'capital ship' and the 'cruiser'—the fighting ships of fleets?" The

Washington Conference made no effort to examine this. Its object was to stop a spate of construction, and the size then adopted had no reference to *function*—what a ship of war has to do—but confined itself to adopting an arbitrary figure which, in the then condition of Navies, was acceptable. It was a temporary measure intended to arrest and prevent further growth—not an attempt to get to the bottom of things. The size adopted was based upon a false assumption—that a capital ship must carry a sixteen inch gun. That assumption has since been abandoned, and we ourselves have acknowledged the error in proposing that no gun larger than eleven or twelve inches should be carried, and that the ship's size should be reduced to about twenty thousand tons. American obscurancy has prevented that sensible proposal being adopted, though every other nation was prepared to make the reduction and indeed to go further and adopt even a lesser size for the “capital” ships.

What is needed, in my opinion, is a scientific enquiry by a Commission in this country to decide what in reality determines the size necessary for a fighting ship. I have given an outline of such a proposal in Chapters VI and VII of *Economy and Naval Security*.

The absurdity of the present position is plain. It is said that the capital ship must be immune from injury by bombs and torpedoes—a totally new definition, since the old capital ships never were immune. It is then said that nothing less than (according to our pedants) twenty thousand tons, or (according to American pedants) thirty-five thousand tons, will suffice. From that it follows that all ships smaller than this will be sunk if attacked by bombs or torpedoes. Hence it follows that after a period of war the only ships which will survive air attacks etc., will be the very big capital ships. But as

fleets cannot act without cruisers to scout for them, and as capital ships cannot go to sea without destroyers to protect them, these great ships will *ex hypothesi* be useless, since they will lack the essential associated arms for performing their function.

Unless common-sense is brought into play we shall see these immense ships a permanent feature in the Navies of the Great Powers. They cost to-day about seven millions sterling; but before long they will cost a great deal more, as the cost of building is continually increasing, and the Navy estimates of Great Britain, the United States and the other competing Powers will rise without any prospect of diminution. It is not improbable that numbers as well as size will increase; and the present British Navy estimates of over eighty millions sterling may be expected to rise above one hundred millions before many years are out, and yet this increase in cost is absolutely unnecessary.

The other question of what decides the size of Navies is more complicated. It is one which ought to be considered; but I can see how difficult it is. I tried to explain the governing principles in my *Sea-Power in the Modern World*, which I wish people would read, particularly in America but also in Europe. For the moment I think the most that can be done by governments which see the need for naval economy and by competent experts is to tackle the question of the size of the *fighting* ships—I say “fighting” rather than “capital” ships because “capital” confuses the issue. The term “capital ship” means nothing more than the largest fighting ship. That is what the old men who invented the term meant. Their use of it in the sense of “principal” was borrowed from such phrases as “matters of capital importance.” The ignorant unhistorical use of the word to denote mere size ought

to be barred. It was not so employed in the past and ought not to be so employed now.

From the above observations of Sir Herbert Richmond we pass to the two Powers whose naval rivalry in the Pacific is now released from the restraining ratios imposed by Treaties.

CHAPTER XI

JAPAN, THE UNITED STATES AND SOUTH AMERICA

ARMAMENTS OF JAPAN

NINETY years ago Japan was an Oriental civilization practically closed to the commerce and culture of the West, while its arts, literature, manners and philosophy were closely connected with China. In the culture and manufacture of silk its people have long excelled, and it is in textiles that the rapid growth of Japanese manufactures since the importation of machinery from the West has been most remarkable. The expansion of Japanese commerce has been enormous, especially in the last decade. The War helped her to deprive Great Britain of many markets, and Japanese competition in cheap goods of all kinds has been held to justify the adoption of protective tariffs and quotas in the British Empire and other countries. Japan has naturally been enriched by the amazing growth of its shipping and foreign trade, and has thus been enabled to raise more and more money in loans and taxes for the wars and armaments that have been employed, since the triumphs over China and Russia, to subjugate Korea and Manchuria.

The Empire of Japan consists of four large and over four thousand small islands, along with Korea on the mainland, and extends over 260,000 square miles. Its population is now nearly 100 millions, of whom one fifth are Koreans. The Japanese Army has a peace strength of about 330,000, based on compulsory service.

The Japanese Navy comes next in strength to those of Great Britain and the United States. The budget of 1936-7 was divided into ordinary expenditure of 1,357,000,000 yen raised by taxation, and extraordinary expenditure of 920,000,000 yen raised mainly by borrowing. In 1935 the external debt of Japan, held mainly in Great Britain, amounted to 1,402 million yen, and the internal debt to 8,376 million yen. Although the revenue has increased rapidly, it has been far outpaced by the expenditure ; and the lion's share of the increase has gone to armaments. The total expenditure on armaments rose from 454 million yen in 1931-2 to 872 million yen in 1933-4, and to 1,059 millions (estimated) in 1936-7. From these figures however should be deducted a considerable fraction for the rise of prices, since the index number of wholesale prices rose in these years from 72 to 90. The strain of armaments on Japanese finance has been increasingly severe, and at the time of writing the burden of taxation and the introduction of restrictions on exchange have provoked a conflict between the Diet and business interests on the one hand, and the Cabinet, controlled by generals and admirals, on the other.

In the ten years, 1922 to 1932, the ordinary expenditure of the Army, paid for out of revenue, ranged in these years between 163 and 179 million yen, while the extraordinary expenditure, paid for by loans, was comparatively small, varying between 26 and 81 million yen. The total expenditure on the Japanese Army was rather lower in 1931-2 than in 1921-2, being 227 in the later year and 246 million yen in the earlier year. In this decade the naval expenditure of Japan declined enormously. In 1921-2 the ordinary expenditure on the Navy was 140 million yen, and the extraordinary 342 million yen. In 1931-2 the ordinary expenditure was slightly lower at

138 million yen, and the extraordinary expenditure was only 88 million yen. Owing to this naval retrenchment, facilitated by the Washington Conference, the total expenditure of Japan on the Army and Navy fell in this decade from 730 to 454 million yen. This is no doubt partially explained by the fact that the purchasing power of the yen rose considerably; for the wholesale price index fell between 1921 and 1931 from 202 to 129, as compared with a basic figure of 100 in 1913.*

A comparison of the military and naval budgets since 1932 will help to explain the financial and political crisis of January, 1937. Ordinary expenditure on the Army, raised by taxation, rose only from 163 to 191 million yen between 1932 and 1937, whereas the extraordinary expenditure on the Army rose from 63 to 316 million yen, so that the military deficit was multiplied by five. In the case of the Navy the ordinary expenditure rose from 138 millions in 1932 to 236 millions in the estimates for 1937, while the extraordinary expenditure more than trebled—from 88 to 315 million yen. Taxation has been raised to concert pitch, and it is doubtful whether the public credit of Japan can be sustained, unless the deficits due to extraordinary expenditure on armaments are reduced.

The recent depression of Japanese bonds is significant, and has been especially marked since the assassination of the veteran Finance Minister, Takahashi, in February 1936, though it began earlier in connection with the Forward Policy in Manchuria. As an index to the general fall in Japanese sterling loans which are dealt in on the London Stock Exchange, it may be mentioned that the old 4 per cent. bonds of 1899, which stood as high as 71

*It should be added that after 1931 the purchasing power of the yen declined, for the wholesale price index rose about 20 per cent. To this decline in the purchasing power of Japanese money may be attributed perhaps one-fifth of the increased cost of Japanese armaments between 1931 and 1936.

in 1935, had fallen to 58 in the middle of January 1937. Compulsory conversions of the internal debt to lower rates of interest have already been begun, and it looks as if the finances and commerce of Japan will gradually be involved in restrictions and regulations as oppressive as those of the European dictatorships, unless, indeed, the Japanese Diet and the Japanese Press are able to resist successfully the encroachments of militarism and restore constitutional government.

In 1932 the civilised world was horrified by a military uprising in Tokio and the assassination of several Ministers. This put the militarist and jingo party in the saddle, and promoted a great increase of expenditure on armaments in connection with the Forward Policy in Manchuria. At the time of writing (January, 1937) it seems that there is likely to be an addition of about 250 million yen to the military appropriations of the year; and a very large issue of internal bonds has been announced, as well as an increase of taxation to supply the deficit on the Budget.

At the beginning of the New Year, 1937, a remarkable article by Admiral Suetsugu appeared in the Japanese press. He was not afraid about the defence of Japan itself, but said the Navy must be strong enough to control the "Western Pacific"; for otherwise "her very existence may be jeopardised." A British writer living in Japan has pointed out that the 5-5-3 ratio "made Japan safe from either British or American aggression, since neither could afford to send into the Pacific a fleet strong enough to contend with the Japanese Navy in its own waters." Soon after the appearance of this article a military pamphlet was issued defending the great additions to expenditure on armaments on the ground that Japan's vital interests in Asia were threatened not only by Russia and China but also by American and British opposition to

her industrial expansion and peaceful aims, which prevented her from making a friendly settlement with China.

There is no doubt that the assassination of the veteran Finance Minister, Takahashi, in February, 1936, weakened the financial control over military and naval expenditure and strengthened the power of what may almost be called a military and naval dictatorship over the Japanese Cabinet, the Japanese Diet and the Japanese Press. In this connection the anti-Communist Pact of November, 1936, between Germany and Japan deserves mention. It was no doubt intended by both parties as a safeguard against a possible war with Soviet Russia.

UNITED STATES

The great federal Republic of the United States, now recovering rapidly from the crisis and depression of 1929-32, has an estimated population of about 128 millions and a land area of over 3 million square miles. It also possesses Alaska, the Panama Canal zone, the Philippines, Puerto Rico, Hawaii, and several other small islands. The country owes its wealth largely to the vigour and enterprise of the original colonists from Britain, the Low Countries, Sweden, etc., and also to the new blood which has been poured in from the German, Latin, and Slavonic nations during the last two centuries. A second main cause of prosperity is the federal constitution, under which forty-eight states exchange their agricultural, mineral, and manufacturing products freely with one another, and without any intervening tariffs or restrictions. Yet another fortunate circumstance is that the frontiers North and South with Canada and Mexico, though bristling with Customs houses, are unfortified. In Europe and in most parts of the world tariffs and fortifications usually go together, and economic nationalism is a

fertile source of competing armaments and political friction. Though the manufacturers of the United States have been able to persuade their politicians, since the Civil War, to build up what is now an almost prohibitive tariff against the manufacturers of other nations, they have generally been opposed to aggressive imperialism and have followed, with one or two important exceptions, the advice of Washington to practice non-intervention in foreign wars, or in the internal affairs of other countries. As we have already seen, their participation in the Great War and the consequences of the Peace of Versailles have caused a reaction in public opinion which has strengthened the champions of strict neutrality.

Nevertheless, the growth of expenditure on armaments since the Spanish War, and especially since the Great War, has been prodigious, and in the last few years the United States may claim a foremost position in the armaments race, though the burden, owing to its immense resources, is felt comparatively lightly.

America has long been the home of extravagance, and this applies quite as much to public as to private expenditure. Hence the small Army, the large Navy and the powerful Air Force of the United States, are the most costly in proportion to their size in the world. Nor should it be forgotten that to the native extravagance of the American must be added the high wages resulting from prosperity, and the high prices resulting from the tariff. In the light of these cautions we may examine, with the aid of the *Armaments Year Book* and other publications, the strength of the American Army, Air Force and Navy, all of which are recruited by voluntary enlistment.

The effectives of the American Army on June 30th, 1935, numbered 138,000 officers and men, to which should

be added 185,000 in the National Guard and reserve forces of 114,000. The total personnel of the Air Force amounted in the same year to over 16,000 with the Army and over 13,000 with the Navy.

On May 15th, 1936, the U.S. Navy consisted of fifteen battleships, seven aircraft carriers, thirty-seven cruisers, two hundred and fifty-one destroyers, and a hundred submarines, totalling in all over one million tons. The total force of officers and men in the Navy amounted to 109,000 in 1935.

Coming now to the expenditure on national defence we find that the expenditure of the war department was reduced during the depression from 344 million dollars in 1931-2, to 269 millions in 1933-4. In the next year it rose to 365 million dollars, and the estimates for 1936-7 were 374 million dollars. Similarly the expenditure of the Navy Department declined in the first three years from 354 to 264 million dollars, and then rose by leaps and bounds to an estimated expenditure of over 569 million dollars for 1936-7. A partial contributory cause of the great increase has certainly been the rise of prices since the devalorisation of the dollar by President Roosevelt's administration.

From the above figures it is clear enough, as Lord Lothian wrote after a visit to the United States in November 1936, that "the policy of neutrality does not mean that the United States is pacifist. On the contrary Americans are a combative people, they are arming very rapidly on the sea and in the air. They are extending the outlying defences of the United States like Hawaii and Alaska; they are still staunch believers in the Monroe Doctrine—especially as a pan-American doctrine. They will fight and fight vigorously for their own security, and to defend free institutions in North and South

America from being forcibly overthrown from outside. For the rest they are on the side of democracy ; and they are anti-imperialist."

That the Roosevelt administration has no intention of "quitting" in the armaments race is clear from the President's budget message to Congress at the beginning of January 1937, when he asked for a total expenditure of nearly 200 millions sterling (a record peace-time total) on defence. The estimates include the construction of two new battleships, corresponding with those laid down by the British Admiralty, each to have a tonnage of 35,000 tons and to cost about 50 million dollars. For these and other purposes the original Navy estimates have been raised from 563 to 587 million dollars, which at the present rate of exchange is about the equivalent of 117 millions sterling. The Army estimates are also raised by about 16 million dollars, to over 393 million dollars, which is nearly 80 millions sterling.

At a Press Conference in connection with his budget message President Roosevelt expressed regret that the failure of the leading sea powers to agree in continuing the limitation provided for by the Washington and London Treaties, compelled the United States to follow the lead of Britain, France, Italy and Germany and proceed to the construction of new battleships.

ARMAMENTS IN SOUTH AMERICA

In comparison with Europe, the populations of Southern and Central America, though restive and turbulent, are not much oppressed by the burden of armaments. With one or two exceptions, such as Paraguay and Bolivia, their troubles arise from internal dissensions rather than from wars. Revolutions, with more or less bloodshed, have been frequent in nearly all the States. Most of

them belong to the League of Nations ; but they are unlikely to contribute much either to economic sanctions or to collective security in Europe. They are jealous of foreign interference, but their relations with the United States have improved greatly in recent years. Towards the end of 1936 an important development occurred at the Inter-American Peace Conference in Buenos Aires, which seems to mark a stage in the movement for a Pan-American Union. The Conference was visited by President Roosevelt and presided over by Mr Cordell Hull. After a series of friendly discussions, two treaties dealing with collective peace and neutrality were signed by the United States and twenty other states. The first, a non-intervention Protocol, was signed unreservedly. The project of an economic union proved impracticable ; but a recommendation was passed that tariffs should be reduced, and that in fiscal affairs there should be equality of treatment between the signatory states. Though many of the Republics are insolvent, only a few owe their present difficulties in any large measure to military burdens. It will be enough for our purpose to mention those States which maintain considerable armaments, or have recently been engaged in war.

The leading Powers of South America are Brazil, Argentina and Chile. After them may be mentioned Peru, Bolivia, Uruguay, Colombia and Venezuela. The States of Central America are very small ; but Mexico, which divides them from the United States, spends more than it can well afford on its military establishments.

BRAZIL

Brazil, by far the largest of South American States, covers an area of 3,298,000 square miles, inhabited by a very mixed population (speaking mainly Portuguese) of

about 44 millions. It belonged to the Portuguese Colonial Empire until 1822, when it became independent of Portugal under Dom Pedro. His son was dethroned in 1889, and after various revolutions a Federal Republic has been established.

Brazil is bounded on the south by Uruguay, on the east by the Atlantic, on the west by Argentina, Paraguay, Bolivia and Peru, and on the north by the Atlantic, the Guianas, Colombia and Venezuela. For military purposes this vast territory is divided into nine districts, each consisting of one or more of the Federated States. The grand total of the Brazilian Army is stated to exceed 78,000 men. The Navy consists of two old battleships, two old cruisers, eight destroyers and a submarine. The total expenditure on the Army was estimated at 475 million milreis in 1936, and that of the Navy at 247 million milreis. In 1936 the exchange value of a milreis was about fourpence-farthing.

ARGENTINA

Argentina, the richest of the South American States, is a Republic, covering 1,132,000 square miles, with a population estimated at about 12,372,000. Its language is Spanish, and it has a large number of Italian immigrants. It is bounded on the north by Bolivia, on the north-east by Paraguay and Uruguay, on the south-east and south by the Atlantic, and on the west by Chile, from which it is separated by the great mountain range of the Andes.

Military service is compulsory, but only a portion of each contingent (about 25 per cent.) is called up by the drawing of lots. Of those enlisted some 4 per cent. serve in the Navy. The effectives of the Army number about 32,000 officers and men, not including 12,000 conscripts who undergo two months' training. The Argentine

Navy consists of two battleships, two cruisers, four coast defence vessels, and a few destroyers and submarines, with a total tonnage of 101,000. The budget of national defence amounts to 139,000,000 paper pesos, of which over 85,000,000 go to the Army, and 54,000,000 to the Navy. The expenditure has been fairly steady since 1932, and was rather smaller in 1936 than in 1932, if we allow for a rise of about 10 per cent. in wholesale prices. In 1936 15 pesos went to the pound.

CHILE

Next to Brazil and Argentina in power and resources among the States of South America come Chile and Peru, which have been frequently at war. Chile has an aggregate area of about 285,000 square miles, and a population which is estimated at over four and a half million. With a coastline of 2,800 miles it is not surprising that the Chilians before the war developed a Navy, at the expense as it turned out of British investors. In those days the Chilean Government enjoyed a good public credit and borrowed freely, not for productive purposes, but largely for the building of battleships which were supplied by British armaments firms. After the crash of 1929 in the United States, the burden of military and naval expenditure proved fatal, and Chile became insolvent. According to the *Armaments Year Book* of the League of Nations, the cost of the Army, Navy and Air Force, which had been reduced perforce to 151 million pesos in 1932, had risen to 362 million in 1936, of which 161 million were for the Army, 157 million for the Navy and 44 million for the Air Force. It should be mentioned however that owing to the wretched state of the paper currency, the index number of wholesale prices had risen in the period from 120 to 185, so that the increase in expenditure was

in reality less than it appears to be. In 1936 the value of the peso fluctuated between 127 and 136 to the pound sterling. The standing Army consists of about 16,000 men, the Navy is composed of two pre-war battleships and three pre-war cruisers, with a number of destroyers, torpedo boats and submarines some of which were built in 1928 and 1929. In all the Chilean Navy has a tonnage of over 70,000 tons.

In the modern history of Peace Chile has played a creditable part. High on the Andes between Chile and Peru may be seen a noble statue of Christ the Redeemer, cast in bronze out of old cannon, which commemorates the settlement of a boundary dispute in 1902. In 1929 a dispute with Peru about the provinces of Tacna and Arica was settled by a treaty. Chile ceded Tacna to Peru and paid Peru the sum of about £1,200,000 for Arica.

PERU

Peru, another maritime Republic on the West Coast of South America, is bounded on the south by Chile and Bolivia and on the north by Ecuador and Columbia. Its area is about 482,000 square miles and its population is estimated at over 6,000,000. The Peruvian army is composed partly of conscripts and partly of volunteers, and the standing army of effectives consists of 15,000 men. In the Navy are two small cruisers which were built at Barrow in 1906 and a few destroyers and submarines. The expenditure of Peru on National Defence rose from 17,000,000 soles in 1932 to 30,000,000 in 1936. Of this sum over 21,000,000 was spent on the Army and over 9,000,000 on the Navy. In these years the value of the sole declined by about 10 per cent. In 1936 it was worth about a shilling.

COLOMBIA

Colombia owes its name to Christopher Columbus who visited it in 1502. The Republic of Colombia was established by Simon Bolivar in 1819; but it then included Venezuela and Ecuador, which withdrew a few years later, and Panama, which seceded from Colombia in 1903 and is now a separate Republic. Stripped of these territories Colombia is still a large country with an area estimated at over 461,000 square miles and a population of nearly eight and a half millions. It is rich in forests, minerals and oilfields, and produces coffee on a large scale. Unfortunately Colombian credit went to pieces after the great Stock Exchange smash and banking collapse in the United States, but there were signs in 1936 of improvement. In 1935 the revenue and expenditure were about 62,000,000 pesos. The National Debt was valued at 184,000,000 dollars, the Departmental Debt at 69,000,000 the Municipal Debt at 22,000,000 and the debt of the Mortgage Banks at 37,000,000. In 1936 the exchange rate was between 8 and 9 pesos to the pound sterling.

Colombia lies in the north-west corner of South America bordering on Panama, Venezuela, Brazil, Peru and Ecuador. Its military system is based on compulsory service, which may be avoided by payment of an exemption tax. Only 3,000 men are called up every six months, and they are drawn by lot. The total standing army of effectives numbers between 11,000 and 12,000 officers and men. There are also some 5,000 police and gendarmerie. The Navy consists of a few small destroyers and river gunboats. The total expenditure on National Defence rose from 4,000,000 pesos in 1931 to 16,000,000 pesos in 1933 and to 24,000,000 pesos in 1934, owing to a war with Peru. The estimates for 1936 were reduced to 12,000,000 pesos.

URUGUAY

Uruguay, the smallest of the South American Republics, has a territory of only 72,000 square miles with a population of over two millions. It became an independent Republic in 1830. It is divided from Argentina by the navigable River Uruguay. It has a good climate and is rich in cattle and sheep. Montevideo, the capital, has a population of nearly 700,000. In time of war military service is compulsory, but in peace time the standing army of about 7,500 officers and men consists of volunteers who enlist for at least a year. The Navy comprises an old gunboat, a training ship and a few tugs. So far as armaments are concerned Uruguay is fortunate, for out of a total budget of 80,000,000 pesos less than 10,000,000 are spent on national defence. The paper currency needs reform and stabilisation. In 1936 the value of the Uruguayan peso fluctuated between 28 and 39 pence. It is now about 27 pence.

VENEZUELA

Venezuela, a Federal Republic lying on the north of South America, is bounded on the north by the Caribbean Sea, on the west by Colombia, on the east by British Guiana, and on the south by Brazil. Its area is about 363,000 square miles, and its population is estimated at over 3,300,000. Swamps, yellow fever and extreme heat make many parts of Venezuela unfit for European settlement; but the great Orinoco river is navigable 700 miles from its mouth for even large steamers, and there are many lagoons and lakes, one of which exceeds 7,000 square miles. Hence the Spanish Conquistadores easily subjected the Indians of these regions, and Spanish rule was maintained from 1550 until 1822, when (thanks to the victories of Simon Bolivar, a native of Caracas), the

Federal Republic of Columbia, which at first included Venezuela and Ecuador, was established. Separation followed, and since 1830 Venezuela has been independent. Unfortunately its boundaries have always been in dispute ; but the most important, that with British Guiana, was settled peacefully by arbitration.

The strength of the standing Army of Venezuela is supposed to be about 6,000 men, who are obtained by contingents supplied by each state of the Federation in proportion to its population. Military service is nominally compulsory ; but there are also volunteers, and a police force of about 3,000 men is recruited by voluntary enlistment. The Navy consists of a few gunboats. Since 1932 the expenditure of Venezuela on National Defence has averaged about 30,000,000 bolivars annually. A bolivar is now worth rather more than a shilling. In one respect Venezuela is fortunate and can claim in comparison with nearly all other countries a magnificent isolation ; for on June 30th, 1930, the Government paid off the whole of its external debt (over 23,000,000 bolivars) in gold, as a token of homage to Simon Bolivar, the Liberator. Further, in May 1935, the Congress voted 12,000,000 bolivars for the redemption of the internal debt, and consequently the Republic is now entirely free from this form of financial obligation.

PARAGUAY

Paraguay, first settled by the Spaniards in 1535, is interesting to the economic historian because at one time it was ruled by the Jesuits on a Communist plan, but its chief importance in modern times is that it supplies a hideous illustration of the ruinous results of War. From 1814 to 1840 Paraguay, having declared its independence of Spain, was governed by Francia, a local dictator.

Lopez, one of his successors, started in 1864 a ferocious five years' war with Brazil, Argentina and Uruguay, which ended in his defeat and death at the Battle of Serroria, on March 1st 1870. This desperate and insane struggle ruined the country and is believed to have reduced its population from 800,000 to 250,000, of whom, in 1870, only 30,000 were men. Untaught by experience, the Paraguayans, rather than arbitrate, entered on a war with Bolivia in 1932 about the Chaco, a miserable piece of territory, subject to alternate floods and drought, lying between the rivers Paraguay and Pilcomayo. The Chaco War lasted nearly three years, until at length, on June 12th 1935, an armistice was signed. Paraguay's territory, exclusive of the Chaco, extends over 61,000 square miles, and its population is estimated at about 900,000. In the *Armaments Year Book* of the League of Nations we learn that the standing Army in 1927 was just under 3,000 men, to which might be added over 2,000 police. Military service is compulsory, and contingents (in peace time) are obtained by the drawing of lots. The Navy consists of a few small gunboats. The total revenue of the State, according to *Whitaker's Almanack*, fell from 7,463,000 gold pesos in 1934 to 6,287,000 in 1935, owing no doubt to the War with Bolivia. The last estimate available of the cost of National Defence is 80,000,000 paper pesos for the financial year ended August 31st, 1934. In the *Armaments Year Book* it is stated that "gold pesos have been converted into paper pesos at the rate of 42.61 paper pesos to 1 gold peso." At that rate a paper peso is worth rather more than a penny. It is added that "no information is available regarding the extraordinary expenditure in consequence of the War with Bolivia."

BOLIVIA

Paraguay's recent enemy Bolivia, is much larger. Its area is estimated at 1,333,000 square kilometres in the *Armaments Year Book*, while *Whitaker's Almanack*, 1937, states that the official estimate is 514,400 square miles, but that "other estimates give an area of 708,195 square miles." Possibly this discrepancy is due to the disputed area of the Chaco. In ancient times, under the Government of Spain, Bolivia was famous for the silver mines of Potosi, but its economic importance is now due chiefly to the output of tin, which is the largest in the world next to that of the Straits Settlements. Information about the military expenditure of Bolivia is almost as vague as that of Paraguay. Before the War the estimates of the War Department were round about 10,000,000 bolivianos. In 1936 they were less than 2,000,000 bolivianos. The expenditure on the War with Paraguay is not yet available, but must have been vast; for the 1936 budget includes 40,000,000 bolivianos of war expenditure. In 1936 the exchange value of the boliviano fluctuated wildly between rates of 20 and 50 to the pound. The following figures of the 1935 budget are significant:—

Revenue	..	..	31,000,000 bolivianos.
Expenditure	..	..	173,000,000 ,,
Public Debt	..	..	79,000,000 ,,

From the standpoint of Armaments the other countries of South America and also those of Central America are insignificant. Small wars and violent revolutions occur as frequently as General Elections in Great Britain.

MEXICO

We cannot, however, omit Mexico, for, though it belongs to the continent of North America, it resembles

in population and characteristics the Spanish Republics which start from its southern borders. Mexico was conquered by Cortes in the sixteenth century and remained part of the Spanish Empire until its independence was established in 1821. A hundred years ago the United States went to war with Mexico over Texas and eventually gained possession of the disputed territory. Mexican history has always been sufficiently turbulent, and in recent times the Republic has had many Presidents since the fall of its most efficient dictator Porfirio Diaz, in 1911. Foreign residents and the Roman Catholic Church have suffered from confiscatory measures, and service of the debt has been suspended. But a good currency has recently been established. The revenue for 1936 was estimated at 286,000,000 dollars or pesos, of which 69,000,000 was allocated to National Defence. This is about 14,000,000 more than the expenditure on armaments in 1932, but the value of the peso is about 10 per cent less now than it was then if the index number of wholesale prices for Mexico can be trusted. In 1936 the value of the Mexican peso varied from about 17 to 18 to the pound sterling. The standing army consists of about 47,000 men. The population is estimated at nearly 19,000,000. Military service is voluntary. The Navy consists of a few transport vessels and coast defence ships manned by about 1,400 officers and men.

CHAPTER XII

ARMAMENTS AND UNEMPLOYMENT

It is often darkest just before the dawn ; and there is at least some ground for hope that common-sense or insolvency may very soon bring about Disarmament, or at least put an end to Rearmament. But in that case, it has been suggested, there would arise the problem of widespread unemployment. This danger may be exaggerated ; but it is fair to ask what should be done by the Government of a State which, after joining in the armaments race and involving itself in a huge expenditure, is suddenly able (and indeed obliged) to close down munition factories and armament works wholly or partially in all parts of the country, and to dismiss thousands, perhaps tens of thousands, of work people. There are two answers to this question. Both are to be found in a famous exposure of economic fallacies written by the brilliant French economist, Frédéric Bastiat, nearly ninety years ago, and entitled “ That which is seen and that which is not seen.”*

The first answer runs as follows :—Suppose an army of 100,000 men mobilised in preparedness for a crisis which seems to threaten a country with aggression, and suppose further that this mobilisation, if continued for a year, costs the taxpayers a hundred millions, besides withdrawing the men from profitable industry. If the maintenance of this addition to the standing army is indispensable to the national security, it is a sacrifice which

*We have used a translation published in London in 1853 of *Essays on Political Economy*, by the late M. Frédéric Bastiat, and we have modernised his illustrations.

must be borne. But suppose next that the time comes when the foreign danger is averted and the sacrifice is no longer required. Then very likely, when the Government announces demobilisation, there will be an outcry, and in Parliament and on public platforms people will say :—

“Disband a hundred thousand men! Do you know what that means? What will become of them? Where will they get a living? Is there not enough unemployment already? Will you throw these men on to the market to increase competition and depress wages? Besides these men are now being fed and clothed by the State; they are spending their pay in the garrison towns; all that helps the shopkeepers and manufacturers, and employs many others. We must therefore oppose and vote against demobilisation.”

All this is obvious. It lies upon the surface. It is what is *seen*. Yet common sense, as well as the science of Political Economy, revolts against the suggestion that a nation should maintain a larger army, or spend more upon armaments, than is necessary. Let us look at the other side of the shield—at what is *not seen*.

To simplify the problem and its solution, take the case of one soldier whose maintenance costs £100 a year. Let us suppose that an employed labourer is called up from an English village, and taken to Aldershot. The tax collectors collect a hundred pounds more that year to pay for the man: and the money is transferred from the pockets of taxpayers to the Exchequer to support the labourer for drilling and marching about, firing off cartridges, etc., but doing nothing in the way of production, whereas before he was doing something useful and productive. Before he was self-supporting and cost nothing to the taxpayer. Against the benefits which the Aldershot shopkeepers receive, we must set the detriment

to the village which has lost a worker and the expenditure of his wages.

To sum up in Bastiat's words :—

“The money and the circulation are the same in both cases ; but in the one case there were (say) 280 days of productive labour ; in the other 280 days of unproductive labour ; always supposing that the recruiting of this man was not necessary for the defence of the country.”

Precisely the same reasoning obviously applies to the retaining of the same man in service for a year longer than he was required. He may be able to find work at once, or there may be some delay ; but in any case it is obviously wrong that his labour should be diverted needlessly into an unproductive and useless channel by the Government. The fallacy is obvious enough if you suppose that a farmer, who has been paying the labourer two pounds a week for working profitably on the farm, has to pay the whole tax of two pounds a week for paying him to be a soldier. The result of this individual transaction is a dead loss to the farmer. The result of maintaining an army in excess of the national requirements is a dead loss to the nation. Finally, adds Bastiat, “the sophism which I am here combatting will not stand the test of progression, which is the touchstone of principles. If there is a national profit in increasing the army, or no loss, why not enrol the entire male population of the country ? ”

The second answer to the question that arises when demobilisation or disarmament becomes both desirable and necessary may begin with an admission that in a particular case some of the men and women who have been dismissed from Government employment will not immediately be able to find work. The firms concerned will not in all cases be able to switch off their employees from destructive to productive industry, say, from tools

and machinery for armaments to tools and machinery for agriculture and industry. In that case, those who are temporarily unemployed will, in a well-organised state, receive unemployment benefit; or, in the alternative, public works of a useful character may be undertaken by way of a temporary substitute, in which case the taxpayer will only receive a partial relief from the cessation of war preparations. Even if the works prove, as they usually do, only partially remunerative, they will at any rate produce something of benefit to the country, and will be much better, not only morally, but economically, than unnecessary armaments, or the maintenance of unnecessary soldiers.

Another illustration or application of economic principles to the burden of armaments, and its pressure on taxpayers and consumers, may be drawn from the condition of countries like Russia, Italy, Germany, Japan, France or Poland during 1936, when the encroachments of unproductive military expenditure on the total budget, whether provided by taxes or loans or currency depreciation, were being severely felt. The subject deserves an extensive essay, for which much material could be gathered from the foreign correspondence of the *Economist* and other newspapers. We must be content with one instance—that of Nazi Germany at the beginning of December, 1936, as set forth by the Berlin correspondent of the *Economist* in the issue of December 5th.

Every case differs from every other, because every Government strives by different devices to allay the inevitable growth of discontent, where armaments are absorbing more and more of the national income and of the public credit. The authority above quoted began his article by stating that "the economic tension and general discomfort among the people of Germany, which have

been increasing since the Nazi Party took office, have of late become acute." There had, indeed, been a vast increase of production and a great diminution of unemployment; but these were accompanied by dearth of provisions and useful articles:—

"The trouble with Nazi Germany is that no class feels that it has a fair share in the enormous production. This condition is inevitable; for a great part of the production is by its nature not distributable; being pure waste, like rearmament, or being economically valueless for a long time to come, like the public constructions now under way. The Government cannot remove the causes of discontent. It can repress, and it can regulate, everything, re-regulating daily ever its own abortive regulations. The whole food marketing system, already a masterpiece of over-regulation, is to be re-regulated. The first step is to stop the rise in prices, which is a consequence of the lack of goods. A decree of this week imposes an absolute veto on rises in prices above the level of October 18th. This applies to goods and services without any qualification. So far as concerns producers and consumers of food, 'there will be a general obligation on producers to offer goods, such as already exists for grain, potatoes, and some other commodities. Every transaction will have to be recorded on paper; and without a certificate no food will enter the market. The reason officially given for this scheme is that the food shortage is expected to continue, and that disparities in local supply must as far as possible be eliminated. . . . An insufficient supply of breadstuffs is feared. Butter is to be locally rationed, and retail dealers are being required to reduce their sales to customers.'"

As in Russia and Italy, so in Germany, propaganda accompanies the endless flood of regulations, restrictions, prohibitions, and penal laws. There are constant complaints of an international conspiracy to subvert the economic structure and political organisation of Germany; and although (as in Russia and Italy) almost the whole

*Later reports go to show that Germany's industrial difficulties and food shortages were exaggerated in this picture. Other considerations have been touched upon at p. 95.

nation is represented to be devotedly attached to the Government, a persistent campaign is waged against internal enemies, who are described as "pests, parasites, speculators and saboteurs." Germany has now embarked on the Russian policy of threatening speculators and those who violate currency laws with death.

No countries, whatever their form of government, can escape the economic consequences of excessive armaments. A democracy may be submerged by revolutionary discontent; and where there are no representative institutions there is always a danger that one or other of the Dictators may resort to war as a last desperate alternative to bankruptcy and starvation.

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